1984
Budget Address

Alberta

HON. LOU HYNDMAN
PROVINCIAL TREASURER

1984

Budget Address

Presented by the Honourable Lou Hyndman
Provincial Treasurer
in the Legislative Assembly of Alberta
on Tuesday, March 27, 1984

Alberta

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1984 Budget Speech

Alberta is on the way back. 1984 will be a year of economic recovery.

Although in some sectors economic adjustments will continue to correct for past overbuilding and a changed international economic environment, the worst is behind us. Albertans, characteristically, are shaking off the problems of the recent downturn. Future expectations have been tempered with realism. Together we can look ahead with confidence and a renewed pioneering spirit. Alberta's best years lie ahead.

Albertans recognize the dangers and costs of another "boom". We all seek growth as an economic recovery goal – but growth at sustainable levels over a period of years.

Your government knows that Albertans have been through the most difficult economic year in more than a decade. We helped reduce the pain of the global recession by introducing the Alberta Economic Resurgence Plan. Made possible by the Heritage Savings Trust Fund, it stabilized family and business incomes and sustained employment.

Many Alberta families and businesses have had to trim back and some still face worrisome budget problems. We realize that government cannot be out of step with the realities facing our citizens. In 1983 we began to tackle government expenditure growth with a "hold-the-line" budget. This budget stays the course. It marks the second step in a necessary and orderly paring down of the provincial government sector.

The signals of renewed growth are beginning to emerge. To keep us firmly on the recovery path, the objectives of this budget are:

- to support a basically strong economy that is on the mend and to reinforce the recovery that will take us to sustainable growth;
- to make government operations trimmer, leaner and more efficient;
- to reduce the gap between expenditure and revenue by dealing responsibly with the fiscal realities facing Alberta;
- to adopt a business-like, yet sensitive approach in reducing government expenditure and manpower;
- to maintain existing high levels of support for essential "people services"; and
- to support employment by reinforcing an economic climate conducive to private sector investment and by continuing job creation programs, manpower training initiatives and a large capital budget.

This budget sets the stage for a steady return to a more normal growth path. The precise timing and speed of Alberta's economic resurgence is hinged to world economic events, particularly in commodity markets that determine the demand for and price of our agriculture, energy, forest and other resources.

Economic Situation and Outlook

The International Economy

In 1983 most industrialized nations started to recover from one of the worst periods since the 1930's; but it was an uneven recovery. The United States economy rebounded sharply, registering real growth of 3.3%. In western Europe, growth averaged only 1% and growth in Japan was also low by historical standards.

Some aspects of the sluggish global recovery have been particularly significant to Alberta. World demand for oil remained weak resulting in an over supply and downward pressure on prices. Contributing to the weak demand was the sharp rise in the

United States dollar which increased the cost of oil to many importing countries. And, although the United States recovery was robust, it was consumer-led which meant that energy demand did not rise strongly. Real interest rates remained historically high in 1983 and had a negative impact on Alberta's investment-intensive economy. These factors partly explain why Alberta's economic recovery has been slow.

One of the more positive economic developments is the reduction in inflation throughout the industrialized world. Waged at a high cost in terms of lost investment and jobs, the fight against inflation could be in jeopardy if governments fail to address the problem of large budgetary deficits. There is a danger that as the economic situation improves private sector borrowing will clash with the financial requirements of governments, pushing interest rates even higher. Economic expansion cannot be sustained unless governments reduce their deficits.

For 1984 international economic expansion is forecast to continue and will accelerate for most of our major trading partners. This cyclical upturn should support the present fragile world oil price. Although OPEC has been weakened, it is expected to hold together and maintain the existing oil price through 1984.

As in 1983, the United States is forecast to have the best performance in 1984 with real growth of around 5%. The expansion is expected to become more widely based as strengthening demand extends to the investment sector. Concern persists that their budgetary deficit will put upward pressure on interest rates, thereby constraining the recovery. Growth in western Europe should be somewhat improved, though still weak, while the Japanese economy is expected to grow by about 4% in 1984.

The international market will be very competitive in 1984, creating a major challenge for Alberta. Only if we intensify our efforts at marketing our products abroad will we succeed in deriving maximum benefits from the world-wide recovery.

The Canadian Economy

The Canadian economy, after declining by 4.4% in 1982, recovered strongly last year recording a real increase in Gross National Product of 3%. This turnabout was due largely to strong economic links with the United States. As well, lower and more stable interest rates helped release pent-up consumer demand. Stabilized employment prospects and government policy initiatives also bolstered expenditure on consumer durables and housing.

The Canadian economy is expected to continue to grow this year. Investment growth has turned positive again, businesses have started to rebuild their inventories, consumers are cautious but still in a spending mood, and our exports of goods should continue to exceed our imports although the difference will narrow.

The average unemployment rate in Canada this year will remain high due to difficulties in absorbing the large number of Canadians who will rejoin the labour force. Unemployment is forecast to remain high through to the end of the decade – a major challenge for policy makers.

A major concern regarding the economic outlook is the high level of real interest rates. If expansion is to be sustained over the longer term, there must be a higher level of investment to develop our natural resource industries, modernize our plants and equipment, and accelerate the penetration of high technology in all areas of production. High interest rates are a major deterrent to such investment.

Large budgetary deficits are putting strong upward pressure on interest rates. The federal government's budgetary deficit, estimated at $29.6 billion for 1984-85, remains a major problem area. Debt servicing costs account for more than 20% of total federal expenditure. Current forecasts that the deficit will not be eliminated in the medium term, even with the assumption of good economic performance, are very disturbing. If investor confidence

is to be restored fully, federal policy makers will have to correct these budgetary imbalances which are absorbing an inordinately high proportion of savings.

Last fall Alberta made a major contribution to the current debate on long-term economic policy objectives for Canada in releasing the discussion paper "Alberta in Canada: Strength in Diversity" (see Appendix E). Several themes are developed throughout the paper:

- because Canada is dependent on foreign markets, Canadians must take measures to meet the challenges of a world in which these markets are increasingly difficult to penetrate and maintain;
- the private sector is the driving force of economic growth;
- through increased productivity and economic growth, the economic and social well-being of Canadians can be improved;
- governments have an important role to play in creating a positive climate for private sector initiative;
- Canada's economic potential lies in recognizing and building upon the strengths of all its provinces and regions; and
- governments in Canada must renew their commitment to intergovernmental cooperation and consultation.

The Alberta Economy

Alberta's economic recovery is somewhat slower than that of many other provinces and of Canada as a whole. Many Albertans find it difficult to understand this situation given our province's fundamental strengths which, in many areas, far surpass those of other countries, let alone other Canadian provinces. What caused our economy to turn down in 1982 and what are the prospects for recovery?

The Economic Adjustment to a Changed Environment

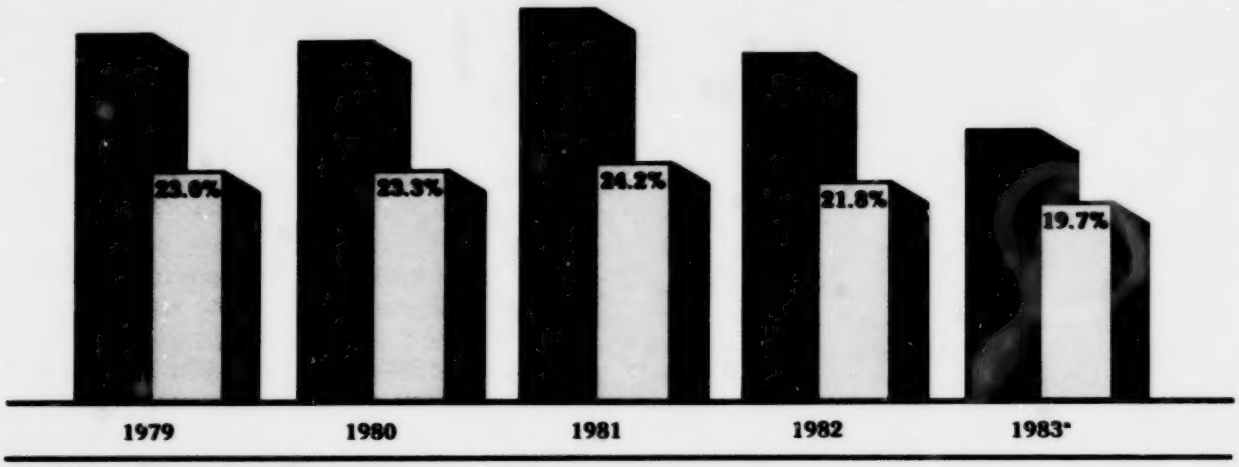
We must look beyond the statistics used by economists to understand what is happening in Alberta. Our economy was not transformed overnight from the strongest to the weakest as some of these statistics often imply. The fact is that Alberta is in transition from a period of super-heated, artificially high growth to one of more normal and sustainable growth.

This transition is most apparent from the declines in construction activity, business investment and jobs. But a province's fundamental economic strength is determined by the level of economic activity it can sustain relative to the size of its population and work force. By this standard, Alberta has clearly one of the strongest economies in the country. This strength is illustrated by the fact that retail spending per person in Alberta continues, month after month, to lead the nation.

Nowhere was the need for adjustment greater than in the area of investment. Spurred by the rise in energy prices, investment grew by leaps and bounds in the late seventies and early eighties. There was very rapid growth in investment by our oil and gas industry. Commercial building quickly increased due to the surge in business activity. Investment in new homes and apartment buildings accelerated to provide shelter for a rapidly increasing population. As a government, we were obliged to increase our capital expenditure for health, education, transportation and other infrastructure to meet the requirements of the fast-growing population.

The result was that the share of the Gross Domestic Product made up by investment reached unsustainably high levels. By 1981 nearly 40 cents out of each dollar spent on goods and services in Alberta went to investment compared to 24 cents for Canada as a whole. It is not realistic to believe that we could have sustained such abnormally high levels of investment.

INVESTMENT AS A PERCENTAGE OF GROSS OUTPUT
(per cent)



Investment is now at a lower level but the fact that it still represents a high share of economic activity shows that investors have not lost confidence in our province's potential. Today, as much as 20% of total Canadian investment is made in Alberta – a clear indicator of strength.

The adjustment process will take time, but it has been largely completed in many areas. Economic growth should therefore return to Alberta this year, subject always to the vagaries of world commodity markets, particularly for energy and agriculture. As the recovery firms up, economic performance will be more balanced, more broadly based and more durable.

The Alberta Economic Resurgence Plan

Throughout the downturn brought on by external factors, this government's goal was to work with our citizens in adapting to the new realities. In 1982 we introduced the Economic Resurgence Plan to help smooth the transition by maintaining investor and consumer confidence. The plan included ongoing royalty reductions for the job-producing oil and gas industry, interest shielding for farmers and small businessmen to help sustain employment, and mortgage interest reduction to provide relief from the federal government's high interest rate policy and to support retail sales. Truckers, students and small contractors also benefited. Over $2.2 billion in special assistance will have been provided to Albertans under the plan.

ALBERTA ECONOMIC RESURGENCE PLAN PROGRAMS, 1982-83 TO 1984-85
(millions of dollars)

Homeowners	
Heritage Fund Mortgage Interest Reduction Program	273.8
Small Businessmen and Farmers	
Heritage Fund Small Business and Farm Interest Shielding Program	85.8
Farm Fuel Distribution Allowance Enrichment	130.8
Primary Agricultural Producers' Natural Gas Price Protection Plan	5.8
Small Contractors	
Highway Winter Works and 1982 Fall Roadwork Extension Programs	45.6
Truckers	
Truck Licence Fee Reduction Program	33.5
Students	
Advanced Education Extra Enrolment Funding	30.1
Oil and Gas Industry	
Well Servicing and Development Grants	350.6
Royalty Tax Credit Enrichment	1,203.0
Extension of Natural Gas Royalty Holidays	45.0
	2,204.0

Employment

The number of people in Alberta with jobs remained relatively constant through the year, averaging slightly over one million, while the unemployment rate fluctuated between 10% and 11%. For 1983 as a whole, the unemployment rate averaged 10.7%. Unemployment is expected to remain at about that level in 1984 since those sectors which have not yet adjusted completely are labour intensive.

We are deeply concerned about the plight of those who would like to find a job at a time when firms are downsizing and not adding to their staffs. Albertans now realize, though, that the present unemployment situation is the inevitable result of the rapid growth in recent years. In the 1979 to 1981 period, close to 200,000 new people came to live in Alberta. It became obvious that when the cooling off occurred in the high growth and labour intensive sectors such as construction, the other sectors of the economy would not be able to absorb that large labour force.

It will take some time for all those seeking jobs to find employment. Some have chosen to leave Alberta, as indicated by the net out-migration observed in 1983. As the economy gains momentum, the private sector will start creating more new jobs and the employment situation will brighten. With our basic energy and agriculture industries strengthening, job security for most employed Albertans is improving.

Alberta's economy is still a strong generator of jobs. We have the highest number of persons employed in proportion to our total working age population. This is an indicator of Alberta's basic

strength. Only a fundamentally strong economy can maintain jobs for such a high proportion of skilled workers.

Inflation

Inflation has finally been brought down to more reasonable levels. The increase in the combined Calgary and Edmonton consumer price index was 5.2% in 1983, less than half that of 1982. In both Calgary and Edmonton, the index actually had two monthly declines in 1983. Last month inflation was 3.7% in Alberta.

Lower inflation is a signal for durable economic growth in the future. If inflation can be contained, we will avoid a repetition of the frantic, speculative activity that occurred in the boom years and our key private sector will be able to plan in a stable, more predictable environment.

Government action to reduce inflationary pressures will continue. For example, in 1983 legislation was passed to improve the arbitration process in public sector labour disputes. Arbitrators are now required to take into account the fiscal policies of the government when deciding on public sector wage settlements. This approach will help to ensure that compensation in the public sector does not lead that in the private sector.

Oil and Gas

The oil and gas sector is our most important producer of jobs. Although it is vulnerable to international economic and political conditions, and therefore is subject to temporary set-backs, this sector will remain a key source of Alberta's economic strength into the next century.

Many positive developments have improved the industry's 1984 outlook. On June 30, 1983, an amending agreement was signed which maintained the price of "old oil" at its current level of $29.75 per barrel and extended the New Oil Reference Price to all oil discovered after March, 1974 and to oil produced by infill drilling. Now, approximately one-third of Alberta's production receives that higher price – a major encouragement to new oil exploration and development. Natural gas pricing was also adjusted to keep Alberta gas competitive in the domestic market.

These measures, in combination with the 1982 Oil and Gas Activity Program and lower interest rates, have had a major, positive impact on the industry's cash flow and balance sheets. Net income is up significantly, especially for upstream operations. The value of land sales rose by 29% in 1983. Seismic kilometres "shot" increased by 21% in late 1983 over late 1982.

Spurred by the attractive fiscal regime developed by this government, major new investment is being undertaken in the non-conventional oil sector. In 1983 about $500 million was invested in oil sands, mostly at the Syncrude and Suncor plants; expansion is continuing at both those plants this year. An experimental oil project at Wolf Lake is being developed. Facilities to produce heavy oil from bitumen at Cold Lake, a new pipeline from there to Edmonton and the recent project announced for Elk Point are further initiatives. Overall, about two-thirds of a billion dollars is targeted for investment in non-conventional oil projects in Alberta in 1984.

The number of enhanced oil recovery projects approved jumped to 24 last year and 11 more are pending. Total investment in this area in 1984 is estimated at a quarter of a billion dollars.

Natural gas marketing remains a real concern. Export sales declined in 1983 due to the mild winter and the excess deliverability of United States gas. This poses a challenge for our natural gas industry. The Alberta government is responding. Last April we obtained agreement from the federal government to lower the price of export gas. In July we were also able to get agreement on volume discounts for United States clients who purchase in excess of 50% of licenced volumes. Marketing efforts in California and in other states have been intensified. In 1984 it is expected that export sales will be maintained at 1983 volumes.

In Canada competition from central Canadian electricity producers and residual fuels reduced domestic sales last year. With prospects for continued recovery in the national economy, domestic gas sales are forecast to increase moderately in 1984.

Overall, our Alberta oil and gas industry is much stronger today than a year ago; it is poised for expansion.

Forestry and Coal

The forestry industry experienced exceptional performance in 1983. Lumber production reached record high levels and prices increased substantially. Prospects for this year are good. Pulp mills are also operating near capacity and increases in pulp prices are forecast. In general, the Alberta forestry industry will again be one of our strong economic areas in 1984.

Total coal production in Alberta increased in 1983 to approximately 25 million tonnes worth about $468 million. Production is expected to be stable this year.

Agriculture

Our fundamentally strong agriculture industry performed well last year. The record number of acres seeded combined with good weather conditions to produce a bountiful crop. Total farm cash receipts declined slightly but total receipts from crops were higher than in 1982, which was a good year.

The government-supported Alberta Pork Producers' Market Insurance Plan is having a beneficial impact. While North American hog production was decreasing in 1983, it rose in Alberta. As for cattle, increases in breeding cow prices are an indicator of the confidence of our cattlemen.

The Alberta government will intensify efforts at marketing our agricultural products abroad. The future growth and prosperity of our agricultural sector depend on successful expansion of Alberta's share of international markets. Our farmers produce high quality products which can be sold at competitive prices.

The acceptance recently by the United States of canola oil imports for human use is a positive development, especially in the medium term. Not only is the United States a very large potential market, but the acceptability of canola there opens doors to other world markets.

Aimed at reducing farmers' operating costs, the Small Business and Farm Interest Shielding Program will have provided relief from high financing costs to 20,000 farmers. Interest rebates for beginning farmers will continue to be offered through the Agricultural Development Corporation. Other programs aimed at reducing both energy and transportation costs have helped farmers cope with operating expenses and tight profit margins. They include the Rural Gas Program, the Farm Fuel Distribution Allowance, the Remote Area Heating Allowance and Rural Electrification.

Construction

In 1983 Alberta led the country in the per capita value of total building construction. Last year Alberta had higher engineering construction expenditures, both in total dollar and per capita terms, than any other province.

However, Alberta's construction industry has not yet completed its transition to a lower growth environment as evidenced by the industry's high rate of unemployment. Many construction projects that started before the downturn were based on expectations of continued high growth. As a result, there was overbuilding especially in the commercial and apartment sectors. Construction activity will remain weak in those areas until demand catches up to existing supply. Nonetheless, residential, industrial and roadbuilding construction activity has remained at or above the national average.

In the early eighties, housing starts in Alberta accounted for a remarkable 20% of total Canadian starts. This pace could not be maintained. Still, hous-

ing starts numbered over 17,100 last year, in line with our 9% share of the national population. New housing starts have reached a sustainable level. There is still, however, an oversupply of apartment units which will not be absorbed for some time.

Very few commercial construction projects will be started in 1984 as there is surplus commercial space available in both Calgary and Edmonton.

Manufacturing

Manufacturing improved substantially in 1983. There was a noticeable firming in both the value of shipments and employment. Shipments of refined petroleum products increased due to stronger demand and expanded capacity. Although the market for refined products remains fiercely competitive, production is expected to expand again this year and Alberta will increase its Canadian market share.

The petrochemical industry also improved last year and has recovered the ground lost during the downturn. Despite excess capacity internationally, Alberta production will increase substantially this year. Five world-scale plants are coming on stream; they will add to the range of petrochemical products available from Alberta for marketing throughout the world.

The Alberta meat packing industry has structural problems which must be tackled soon by packers, suppliers and workers.

Primary metals and metal fabricating industries are in an adjustment phase, as are those manufacturing industries which depend on the construction and natural gas industries.

On balance, Alberta's manufacturing sector now produces a wide range of products in modern, cost-efficient plants. It can compete efficiently in foreign markets. Our challenge is to market these products around the world.

Engineering Services and High Technology

Engineering services sold by Alberta companies to other countries increased by 21% in 1983 to more than $100 million and included major contracts in such countries as New Zealand, Indonesia, Norway, Australia, Pakistan, Kenya, Ecuador, Kuwait, China and Korea.

Our high technology service exports increased in 1983 to over $80 million to such countries as the United Kingdom, Denmark, Bolivia and Madagascar. High technology manufactured equipment sales from Alberta more than doubled in 1983 to over $90 million, with goods going to Japan, Austria, Finland, France, Germany, the United States, Peru, Iceland and Belize.

More than fifty world class scientists are being funded by the Heritage Fund Medical Research Foundation. Over two thousand scientists are at work on research and development at our universities.

Medium-term Outlook for Alberta

The medium-term economic outlook for the province is very positive. Alberta's economy will remain one of the strongest in Canada.

The job-producing oil and gas industry is well positioned for growth.

With regard to oil supply, non-OPEC production which has dampened international prices is not expected to grow. United Kingdom production is peaking; Mexico is not likely to spend scarce funds on energy infrastructure given its financial difficulties; and China will need all the oil it finds for its domestic use. Canada's northern frontier is not living up to previous billings and there is increasing evidence of waning interest in that area. Investors will be attracted to Alberta – the province with still undiscovered conventional supplies, huge known

reserves of oil sands and heavy oil, and an attractive fiscal regime for exploration and development.

The weak recovery in world oil demand raises the question of the extent of structural shifts and inter-fuel switching in the energy field. However, the economic recovery, particularly in the United States, is expected to produce a cyclical boost in energy demand. The "gas bubble" there will begin to shrink at an increasing rate over the medium term. Alberta with its large reserves and stable environment will become a premium natural gas supplier.

Our energy and agriculture sectors will continue to provide a strong base for promising economic development. New linkages are developing between these base sectors and the manufacturing and service sectors. The high technology needed to produce oil from non-conventional sources is having positive spill-over effects. New technology now being developed in Alberta enhances our competitive advantage in manufacturing. Our petrochemical plants are among the most modern in the world. Our food processing sector is poised for major growth.

Through joint marketing efforts with Alberta companies, our export markets will become more diversified in the medium term. The Pacific Rim countries demand our close attention. With initiative and effort, many of our industries can secure a firm foothold in the world marketplace and make our private sector less vulnerable to North American economic conditions.

Albertans are continuing to build on strengths to diversify the economy. Alberta's best days are ahead of us. Justifiably, we can look to the future with confidence.

Fiscal Situation

Alberta's fiscal situation was dramatically affected by external shocks in the late seventies and early eighties. The second wave of world oil price increases in 1979 was the cause of the present revenue and expenditure imbalance. Already high expectations about Alberta's economic and resource revenue prospects were raised to unrealistic levels. People and investment flowed to the province at an unprecedented rate. To service this growth, government operating and capital expenditures had to be greatly increased.

In the early eighties, our revenue picture changed very quickly. Ottawa introduced the confiscatory "National" Energy Program which dealt a hammer blow to the Alberta energy sector. Shortly thereafter, the global economy turned down and energy demand slowed. Prices softened, eventually leading to a drop in the world oil price a year ago and a subsequent reduction in the natural gas export price. This left Alberta with the unenviable combination of high expenditure commitments and uncertain revenue prospects. Fortunately, Albertans had the Heritage Savings Trust Fund, built up over the high revenue years.

A key objective of last year's budget was to begin a step-by-step adjustment of revenue and expenditure. Expenditure growth was slashed to less than 10%. In recent months other budgetary initiatives were taken:

- in health, our largest expenditure area, a new hospital user fee policy was introduced to create a greater sense of cost awareness by hospital boards and citizens able to pay;
- the graduated personal income tax rate was raised by 5 points to shore up revenue while still retaining the lowest provincial personal income tax rate; and
- amendments were passed requiring arbitrators to consider the fiscal policies of the government in making public sector wage and salary awards.

Our "hold-the-line" program is working. For 1983-84 I am forecasting budgetary expenditure to

be $250 million below the comparable budget estimate. Revenue is expected to be up by $157 million. As a result, the budget deficit for 1983-84 is forecast at $566 million, down considerably from the estimate. This compares to an actual deficit of over two billion dollars in 1982-83. We should keep in mind, though, that income from the Heritage Fund provided over $1.5 billion in assistance in 1983-84. Without the Heritage Fund investment income, tax rates would have had to rise even more.

It is still necessary to pursue policies that will reduce the deficit so that the recovery can gain momentum and so the private sector engine can move into higher gear.

1984-85 Fiscal Strategy

In weighing the fiscal strategy options for 1984-85, the following considerations were fundamental.

- The strategy should be fiscally responsible. Deficits and interest costs must be contained so that revenues can be used to provide people services, not payment of interest on debt.
- The challenge of transition should be shared fairly. The public service and grant recipients must share with other Albertans the responsibilities of restraint.
- The size of government should be reduced now that the abnormal growth period has passed.
- The fiscal strategy should sustain employment and set the foundation for a period of steady, durable private sector growth and job security.
- High levels of support for essential "people services" should be maintained.

Prudent Fiscal Stewardship

It is essential that our fiscal house be in order as we move from a period of unusual expenditure growth through a period of uncertain revenue performance. As Provincial Treasurer, I am committed to protecting Alberta's creditworthiness.

This budget will continue our strategy of deficit containment and reduction in order to maintain our international reputation for sound management of the public finances. Then, if resource revenue declines in the future, the province will be in a much stronger position to work through a period of revenue transition.

Our deficit reduction strategy has two main elements. First, the 1984-85 fiscal plan calls for a reduction in total government expenditure. This marks the first year-over-year decrease in Alberta since 1941-42. Contrast this reduction with an increase of more than 7% in the federal government's spending plans for 1984-85.

Second, to reduce the need for borrowing, Heritage Fund investment income will continue to be used for budgetary purposes until the financial situation improves. Appropriate legislative amendments will be introduced shortly. The transfer to the Heritage Fund of non-renewable resource revenue will continue at the 15% level to finance approved capital projects and a modest level of lending to Alberta Crown corporations. The transfer will maintain the Fund at its present level after taking inflation into account. In real terms the Heritage Fund has not grown over the past year.

When the "rainy days" hit Alberta, the Heritage Fund "umbrella" was brought out and opened. By the end of 1984-85, $3.9 billion in Heritage Fund investment income will have been diverted to provide special support for Albertans. This year the investment income from the Heritage Fund "savings account" will provide approximately 16% of all budgetary revenue to the province. In concrete terms, for two months out of twelve the Heritage Fund provides the money to operate our schools, hospitals, seniors' programs, colleges, justice system and other services. Without the Heritage Fund, it is

clear that Albertans would face both tax increases and cuts in levels of services. The Heritage Fund is our financial bridge to the future.

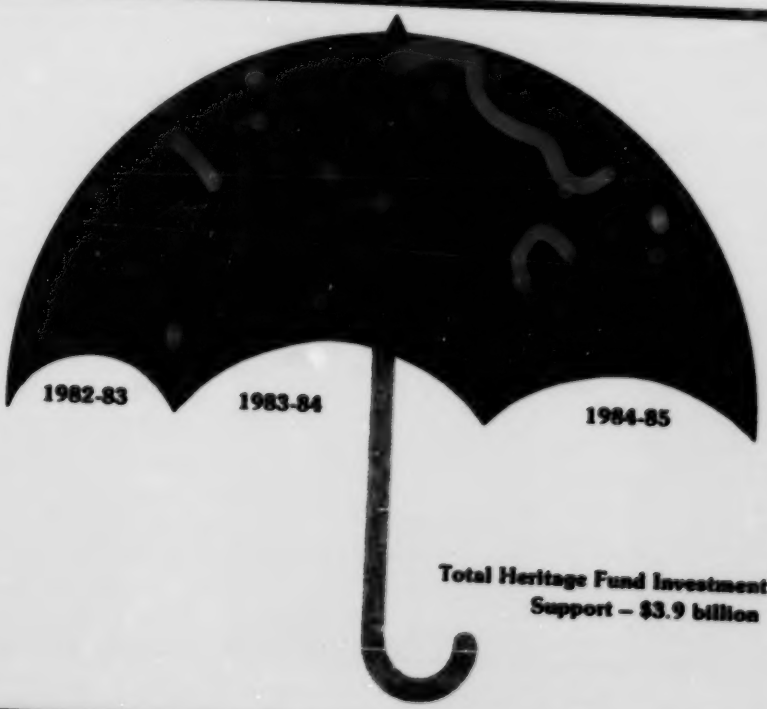
Government Grants Policy

If we are to meet our 1984-85 expenditure plan, recipients of government grants must be partners in restraint. Many Albertans may not realize that approximately one-half of their government's operating expenditure is paid out in the form of grants to their school boards, post-secondary institutions, hospital boards and municipalities. It is estimated that approximately 80% of these grants go to pay for wages and salaries.

In January the Minister of Education announced that basic per pupil operating grants to school boards in 1984-85 would be held at the same level as in 1983-84. Grants to post-secondary institutions, hospital boards and municipalities will also be held at the 1983-84 level.

Some additional funds will be provided in departmental budgets for correcting inequities and funding special initiatives. In response to economic realities and the "hold-the-line" expenditure policy, no provision is made for salary increases. This reflects the November, 1983 fiscal policy statement for public sector arbitrations.

HERITAGE FUND INVESTMENT INCOME SUPPORT FOR SOCIAL AND ECONOMIC PROGRAMS, 1982-83 TO 1984-85



Leaner, More Efficient Public Sector

The public sector must also shoulder the burden of restraint now that the boom has subsided. Last year, as demand for certain government services began to drop, 237 permanent full-time public service positions were eliminated.

Tonight, Mr. Speaker, I am announcing a further reduction of 869 permanent full-time positions at all levels in government departments. I am also able to report that approximately 240 permanent positions have been cut from Crown corporations, boards, agencies and commissions. In total, over 1,100 full-time positions have been eliminated for an annual dollar saving of over $22 million.

These positions have become unnecessary because Alberta's population is growing at a much slower rate than before. Every effort will continue to be made to retrain or redeploy as many as possible of those affected.

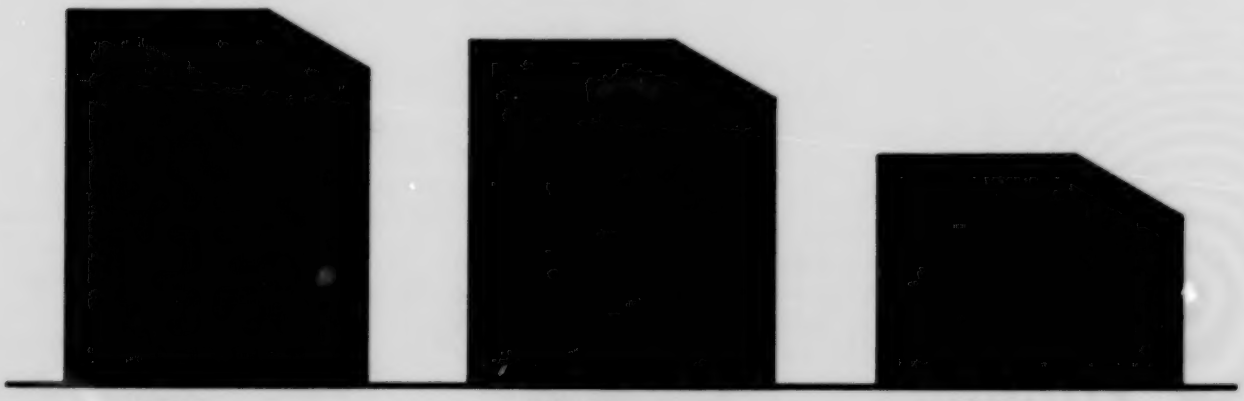
Over the coming fiscal year we will look for further reductions. Reductions will depend on government priorities, demand for services, fairness, efficiency and the extent to which services can be moved to the private sector.

All government departments and Crown agencies are being asked to reduce their operating costs by priorizing goals, reducing duplication, rethinking present practices and exploring lower cost alternatives. Our challenge is straightforward: to manage better with less.

One alternative is privatization. Government should not be doing work that could be handled more efficiently by the private sector. Strides are being made. Maintenance of government-owned buildings is increasingly being contracted out to the private sector. In-house design and planning staff in the department of Public Works, Supply and Services is being kept to a minimum and private firms are used to the largest extent possible. The Transportation department will accelerate the amount of work contracted out to the private sector.

Over the coming fiscal year, we intend to privatize both the corporate name registry now operated by Consumer and Corporate Affairs and the temporary staff services function provided currently by the Personnel Administration Office. Other areas will be examined, but we will proceed with care to ensure that the quality of public services is not jeopardized.

PERMANENT FULL-TIME PUBLIC SERVICE POSITIONS



I welcome constructive "government-downsizing" suggestions from citizens all over the province. With your assistance, we can continue the process of evolving a trimmer, leaner government.

Steady, Long-Lasting Recovery

Albertans want a durable, broadly based recovery. The 1984-85 budget plan adds momentum to that goal by maintaining a known, stable fiscal policy environment. This is what investors are looking for.

To maintain jobs while the economy gains momentum, substantial capital funding is provided by this budget and through the capital programs of the Heritage Fund and various Crown corporations. Bids are down substantially from the boom years so our capital dollars are going further. In addition, employment and manpower training programs will benefit many Albertans. However, lasting jobs come only from private sector investment – not artificial, government make-work projects. We will maintain a climate conducive to private sector risk-taking.

This year the government will continue to support vigorously marketing and trade development for Alberta's products. The international market is fiercely competitive. No existing Alberta market, whether domestic or foreign, is safe. New sales will require aggressive, imaginative initiatives. Now is the time to support our international sales force. The government will work in partnership with Alberta industry to help expand our markets.

Continued Support for Essential People Services

Essential services for health, education, child welfare, our seniors and the disadvantaged will not be sacrificed. There are no funding cuts in these areas. Albertans of all circumstances will continue to receive the highest level of public services of any Canadian citizens.

Budgetary Expenditure

Last year's budget cut the expenditure growth rate from over 30% in 1982-83 to less than 10%. The 1984-85 expenditure plan tightens the budgetary belt even further.

Total government expenditure is targeted at $9.6 billion, down $169 million from 1983-84. This is a drop of 1.7% from last year's comparable estimates.

Voted appropriations will be reduced on an estimate-over-estimate basis by 1.9% to $9.4 billion. Statutory expenditure will increase by 6.2% to $232 million due to increased debt servicing costs relating to the deficits of the past two years. Debt servicing accounts for only 1.8% of total expenditure in Alberta.

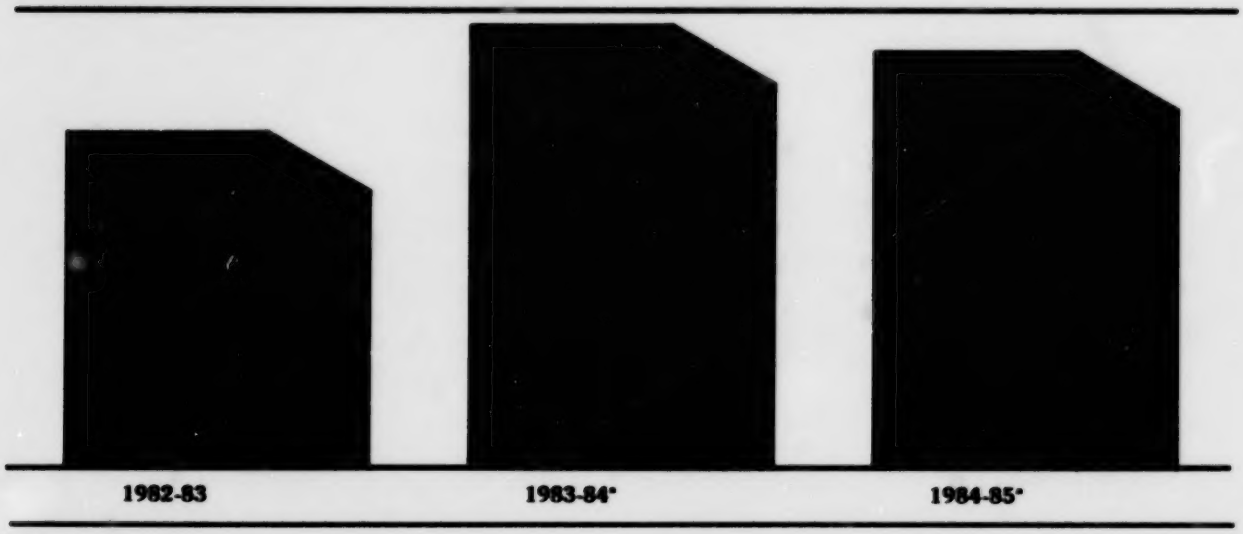
Even with this level of belt-tightening, Albertans will still enjoy the finest level of services and facilities of any province. On a per citizen basis, Alberta's expenditure on government services is approximately 35% above the average for all provinces.

Operating Expenditure – Services for Albertans

Operating costs are the largest expenditure in budgeting for a household, a business or a government. In these times when Albertans are restraining their day-to-day expenses, government must also constrain its operating costs. We must be in step with the rest of the economy.

Accordingly, in 1984-85 we are targeting for a freeze in the operating budget. This signals a major breakthrough in blunting the annual upward spiral of operating costs of past years. To be successful, the support of all Albertans is needed because demand for services and facilities fuels increases in our operating costs. Restraint by individual Albertans

BUDGETARY EXPENDITURE
(millions of dollars)



* Estimate

in their requests for government services will help keep government growth in check. As well, public sector compensation must follow, not lead, the private sector.

Health Care Services

Albertans are fortunate to have access to top flight health care services. This comes at a tremendous cost, however. Health care is the largest and fastest growing component of expenditure. Alberta and all other provinces are experiencing mounting difficulties in financing health care. This is due to escalating costs and slow revenue growth made worse by a steady decline in federal health care funding.

In 1984-85 funding for both the operation of health care facilities and medical services will total $1.9 billion, up 10% from 1983-84 and double the amount of only 5 years ago.

Funding for the operation of health care facilities alone will total $1.5 billion, up $98 million from 1983-84. This includes $28 million for the additional operating costs of new and renovated hospitals and $22 million for additional employee benefits provided in last year's arbitration awards. Wages and salaries comprise a major part of the cost of health care.

There are two other elements to the control of health care costs: first, hospital use and, second, the utilization of doctor and other professional services.

To reduce hospital usage, greater cost consciousness on the part of citizens, doctors, administrators and hospital boards is needed. Until recently, the province automatically covered hospital board deficits. This policy was discontinued last year because it provided no incentive for hospitals to stay within their budgets. The new user charge system is a cost awareness tool which has encouraged hospital boards to avoid cost over-runs.

Roughly 40% of the population – including all seniors and all Albertans of limited income – are exempt from these user charges. In addition, there is a low annual user fee maximum of $150 per individual.

The cost of services provided by physicians and other health care professionals has been rising steadily. The premium system covers only about 30% of the expenditure of the Health Care Insurance Plan for basic health services. Again, all senior citizens and those of limited income are exempt from paying premiums. In January a ceiling was placed on the doctors' benefits schedule. Nevertheless, expenditure of the Health Care Insurance Fund will increase by over $64 million due to increases in utilization of services.

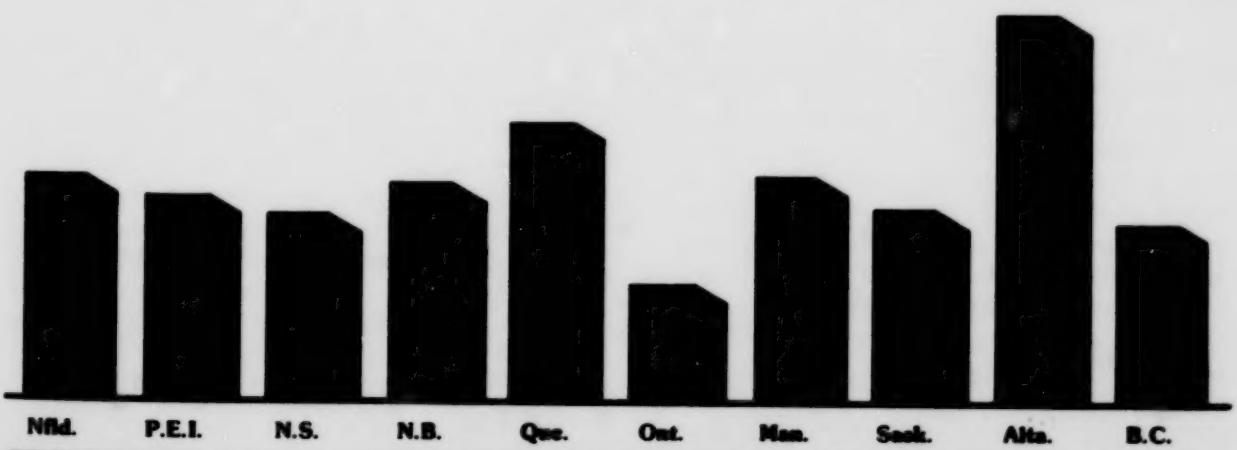
In the months ahead, the Minister of Hospitals and Medical Care will be working with the medical profession to find additional ways to curb over-utilization of services. Our success depends largely on the cooperation received from those who use and manage the system. If we cannot reduce the rate of increase of health costs and if the federal government refuses to provide sufficient funding, then new revenue sources will have to be found. So that all Albertans can have the facts on health care financing, a special appendix has been included in this budget address.

Senior Citizens and Widows

Alberta senior citizens will continue to benefit from an extensive array of programs that are second to none in Canada. Senior citizen property tax rebates and renter assistance grants are budgeted at over $100 million, approximately $800 per senior citizen. About 45,000 seniors will benefit over the term of the unique Senior Citizens' Home Improvement Program which is budgeted at $44 million, up 69% from last year. It provides grants of up to $3,000 to our pioneers, enabling them to remain in their homes.

Tonight I am announcing that the Senior Citizen Home Heating Grant Program will be extended into 1985 at an estimated cost of $8 million. This special program helps keep the cost of home heating for our seniors at manageable levels.

GROSS GENERAL EXPENDITURE BY PROVINCE, 1983-84
(dollars per capita)



Alberta widows and widowers of limited means aged 55 to 64 are eligible for senior citizen programs. No other province provides this benefit. Moreover, Alberta is unique in making available a pension to widows and widowers in need. Approximately 3,000 persons will be receiving these special benefits in 1984.

Affordable Shelter

Bridging the affordability gap faced by homeowners and renters continues to be a priority. For 1984-85 this budget contains nearly $200 million in various forms of shelter assistance for low and moderate income citizens.

The Renter Assistance Tax Credit will nearly double to $77 million in 1984-85, reflecting the enrichment announced in the fall of 1982. This money will flow to Albertans over the next few months.

Through the Heritage Fund Mortgage Interest Reduction Program, we estimate that by the end of August almost $274 million will have been provided to over 150,000 Alberta homeowners. In addition, nearly 6,000 homeowners have been assisted in renegotiating mortgages to more favourable rates.

Social Services and Community Health

With a 1984-85 budget of $1.2 billion, Alberta's support for a comprehensive range of social services and community health programs is among the best in Canada.

In 1978 this government introduced the Alberta Home Care Program to provide nursing, physiotherapy, homemaking, "Meals on Wheels" and other services in the home. Tens of thousands of Albertans who might otherwise have needed costly institutional care have been treated in the comfort and convenience of their own homes. The program provides effective care at a reasonable cost, is popular with its patients – most of whom are senior citizens – and enables families and friends to assist on a volunteer basis.

I am pleased to announce a major expansion of the Alberta Home Care Program. Eligibility for the program will be expanded to include senior citizens with a medical condition who require only homemaking support. In the past, medical treatments had to be prescribed before such support was available. The new guidelines will be of substantial benefit to our senior citizens and the physically disabled who prefer to remain in their own homes. To implement all these new initiatives, the budget for home care in 1984-85 will rise by 55% to over $28 million.

The Aids to Daily Living and Extended Health Benefits Programs will be increased by 51% to benefit over 80,000 of our seniors and physically handicapped citizens.

Education

Young Albertans represent the future of our province and education is the key to that future. Better citizenship, a more productive economy and a greater sense of community all depend upon a well educated population with the necessary attitudes, skills and knowledge.

For basic education this year, the government will budget $1.2 billion, an expenditure among the highest per capita in Canada. Alberta provides many special programs with greater scope and benefits than other provinces. Examples include Early Childhood Services and multi-sensory handicapped programs.

Basic operating grants to school boards will amount to $674 million, providing the same per pupil support as last year. Additional funding of nearly $20 million will be available for the unique learning needs of handicapped and gifted children and for other special programs.

For self-governing post-secondary institutions, basic operating grants will total $607 million,

the same as last year. Significant additional funding of $26 million will be made available to reflect surging enrolments, the opening of recently expanded facilities and enhanced course programs. Last year $5.5 million in extra funding was provided to reflect the enrolment bulge in September, 1983. These monies were additional to the special extra enrolment funding provided in 1982. Both these extra 1982 and 1983 special funding initiatives are incorporated in this budget to enable institutions to cope with expanded enrolments.

Alberta leads Canada in terms of advanced education funding support per student.

Many young Albertans who plan to attend advanced learning institutions are faced with personal financial pressures. This government provides unparalleled financial assistance for students. No other province makes available to students the total dollars or wide range of assistance available here. In Alberta a single undergraduate can receive up to $8,800 per year and a disadvantaged student can receive up to $12,800. Moreover, Alberta's loan remission program helps reduce a student's debt load after graduation.

Extra student assistance funding of $29 million was provided in January, 1984. In 1984-85 the budget for student financial aid is more than doubled to $64 million. Approximately 42,000 students will receive support compared to the 29,000 students who were assisted in 1982-83 through loans, grants, scholarships and remissions.

The 1980's Endowment Fund will continue to provide matching grants to post-secondary institutions.

Support to Local Government

In 1984-85 unconditional grants to municipalities will continue at last year's level of $92 million. An additional amount of over $1.8 million will be made available to correct special inequities that have arisen over the years.

Albertans continue to enjoy among the lowest property taxes in all of Canada thanks in large part to the continuing legacy of the one billion dollar Municipal Debt Reduction Program of 1979-80 and the Municipal Debenture Interest Rebate Program.

$115 million is budgeted for interest relief on eligible debt of municipalities – in effect, a significant property tax reduction to Albertans this year.

Strengthening and Broadening Alberta's Economic Base

The resiliency of Alberta's economy during the downturn is clear evidence of the depth and expanding breadth of our economic base. Steady progress is being made to diversify around our basic human and natural resource strengths by providing a climate conducive to private sector investment. The highly successful offering by Vencap Equities Alberta Ltd. of shares and debentures is a show of confidence in Alberta's future. Artificial diversification, where government provides massive public hand-outs to lure industry, does not stand the test of real world competition.

Diversification, led by the private sector, is an economic objective but it will not yield the budgetary revenue that Albertans secure from oil and gas. The economic reality is that royalties from the resources owned by Albertans will continue to be a primary source of revenue for years to come.

Small business is the backbone of the Alberta economy. To help build and strengthen those businesses, a new small business venture capital program is planned. Over four years it will provide approximately $15 million in assistance to stimulate the formation by private sector investors of pools of capital of up to $50 million. "Small business equity companies" will then reinvest the monies in new or expanding Alberta businesses.

To help reduce small business interest costs, the special Heritage Fund Interest Shielding Program will have provided over its two-year term nearly $53 million to 21,000 small businesses.

An example of our outward reaching trade initiatives is the decision to be a part of Expo'86 in Vancouver, the largest world exhibition in North America since 1967. Forty-five nations are expected to participate. This event is a significant opportunity for Alberta to attract tourists and promote our products and services. Planning and commencement costs of over $1 million have been budgeted.

Following up on the Premier's mission to the Pacific Rim, Alberta will host the "Great Trade Show and Cultural Exhibition of China" in April, the largest ever held by that country outside its own borders.

To assist research and development, over $21 million is targeted for the Alberta Research Council.

Agriculture

Agriculture is basic to Alberta's renewable resource strength and provides the balance wheel when energy prices and markets soften. The family farm is the social and economic bedrock that stabilizes our province.

To help reduce farm interest costs, the special Heritage Fund Interest Shielding Program will have provided over its two year life $33 million in assistance to 20,000 farmers.

The Farm Fuel Distribution Allowance continues to reduce farm input costs; this budget contains $75 million to continue the subsidy for purple gas. No other province has such a program.

The Primary Agricultural Producers' Natural Gas Rebate Program, established on December 31, 1982 for 2 years, will continue into 1985 at a cost of $2 million. It assists large agricultural users of natural gas.

Since its inception in 1973, the Rural Gas Program has provided natural gas to over 70,000 farms and other rural consumers through grants approaching $300 million. The program helps to assure that the quality of life in rural Alberta remains comparable to that in urban areas.

The Agricultural Development Corporation will receive a 23% increase in funding to over $80 million; much of the increase will go to assist beginning farmers.

I wish to announce that the successful Farming for the Future Program, supported by the Heritage Fund, will be recommended for continuation for three years.

Local Agricultural Service Boards and Agricultural Societies will receive $6.7 million in 1984-85.

As part of our agricultural upgrading and diversification effort, the $8.6 million Heritage Fund Food Processing Development Centre in Leduc will become operational.

Energy Pricing

Albertans benefit from the lowest energy prices in Canada. The Natural Gas Price Protection Plan will continue as previously indicated to March 31, 1985. Approximately $130 million in rebates to Albertans will be paid out under the plan this year.

The Alberta Electric Energy Marketing Agency will provide over $50 million in 1984-85 to move toward equalized electricity costs across the province.

Manpower Training and Employment Initiatives

Even though our economy is on the mend, employment growth will be slow since new job creation typically gains momentum later in the economic recovery cycle. Employment in construction and related areas is not expected to increase significantly until the current excess capacity in office space, apartments and other areas is absorbed. To ease the burden until private sector hiring picks up, an initial allocation of $40.5 million is provided for special employment programs:

— the Priorities Employment Program,
— the Employment Skills Program,
— the Special Placement Program, and
— the Summer Temporary Employment Program.

These programs assist especially in alleviating the serious problem of youth unemployment. Further funding will be considered in the months ahead.

Funding for manpower development and training assistance will reach $38 million. These involve support for on-the-job training and skill upgrading. To reflect surging enrolments in vocational training, $2.5 million in extra funding was recently made available.

Capital Expenditure – Jobs for Albertans

Thousands of jobs will flow from this year's large capital budget.

The total capital activity supported by the government will approach $3 billion in 1984-85. This is comprised of General Revenue Fund capital expenditure of $1.7 billion; Crown corporations' capital for new construction of nearly $1 billion; and Heritage Fund capital projects of almost $300 million.

Alberta's capital budget on a per person basis will continue to be one of the highest – if not the highest – in all of Canada.

Capital spending has increased dramatically over the last several years and we now have in place or in process most of the capital building projects required for the decade.

Because construction costs are down significantly from the boom years, slightly fewer capital dollars can generate approximately the same degree of job activity in 1984 as in 1983.

Health Care Facilities

Capital support for health care in Alberta will total nearly $300 million in 1984-85. This is part of the multi-year hospital construction and renovation program which will see 103 hospitals built or renovated in 73 centres across Alberta at a total cost exceeding $2 billion. In 1984-85 ten new hospitals will be opened.

To serve the existing population and the expected future growth of Edmonton and Calgary, we announce tonight that construction will commence within weeks on two major, new active treatment hospitals. Designed with 500 beds each, these state-of-the-art hospitals will each have a total cost of approximately $140 million with $23 million budgeted for start-up construction this year. Over the 33 month construction period, a total of approximately 2,300 man-years of employment will be created by the two projects. These facilities will ensure that Albertans continue to have access to the highest quality health care in the nation.

Over the past few years, our rural citizens have benefited from an extensive program of upgrading and replacing old and deteriorated rural hospitals. These improved facilities help sustain the viability of many small communities at a small cost. The operating budgets for rural hospitals total only 7% of the total hospital operating budget. The same is true of capital construction costs. The seven "similar-design" new rural hospitals will cost less than 1% of the total hospital capital construction program.

Educational Facilities

Universities, colleges and technical institutions will receive capital support of over $138 million this year. Projects include completion of the new campus at Athabasca University, Scurfield Hall at the University of Calgary, the new Business Administration and Commerce Building at the University of Alberta and

a recreation facility at the University of Lethbridge. The budget also provides support for projects at Lethbridge and Mount Royal Colleges and at the Southern Alberta Institute of Technology. Planning will commence on the future development of Lakeland College.

Capital support for basic education will total nearly $148 million, up 13% from 1983-84. Emphasis will be on modernization of existing schools rather than new construction.

Recreational and Cultural Facilities

Alberta will be the centre of world attention in 1988 as Calgary hosts the XV Olympic Winter Games. It is estimated that over one and a half billion viewers will be watching this world class event. The resulting global recognition will boost our international trade efforts and inject millions of tourist dollars into Alberta's economy. This budget provides capital funding of over $24 million for the first phase of Olympic development at Mount Allan, Canmore and the University of Calgary. Provincial capital support will generate a substantial number of jobs during the construction period and will leave an unparalleled legacy of winter sport facilities.

Cultural projects across Alberta will continue to receive substantial capital funding. Nearly $9 million is budgeted to continue work on various historical projects: the Tyrrell Museum (Drumheller); the Ukrainian Village (near Elk Island Park); the Oil Sands Interpretive Centre (Fort McMurray); the Buffalo Jump Visitors Centre (Fort Macleod); and the Frank Slide Interpretive Centre (Crowsnest Pass). The Calgary Centre for Performing Arts will receive $12 million to continue construction.

Transportation

Alberta's transportation network is one of the most extensive and efficient in the country. Capital improvements in 1984-85 will reach $650 million. Highway and road construction is budgeted at over $500 million. There will be support for the continued twinning of highways 1 and 16 and for construction of the highway between Grande Prairie and Grande Cache.

Funding of $7.5 million is provided for a new streets assistance program for towns and villages.

Urban transportation grants of $137 million will sustain our existing commitments.

Public Works and Utilities

The provision of priority public works has been budgeted at nearly $220 million. Of this amount, over 60% will be spent outside the Calgary and Edmonton areas. As a reflection of our significant capital development in recent years, almost 85% of the public works budget will be needed to complete and maintain facilities already started.

Approximately $100 million is provided for needed water and sewer projects and for gas utility developments which assist in improving the quality of life in many communities.

Economic Development

Financing for economic development projects will reach almost $60 million in 1984-85. This includes $53.5 million as part of Alberta's share of the cost of financing the Prince Rupert Grain Terminal. Over $5 million is provided for financing computer technology, laser initiatives, thermoelectric generator development and biotechnology.

Capital Projects – Major Crown Corporations

Given the reduced growth pressures and the need for fiscal restraint, we have followed up on our commitment to reduce the financial requirements of the Crown corporations. Nevertheless, the activities of Alberta's major Crown corporations will directly result in capital construction activity of nearly $1 billion in 1984-85.

In the housing sector, funding will be provided for the construction of 1,460 shelter units for Albertans with senior citizens and low income families being the primary beneficiaries. $18 million will be committed for the construction of 300 new housing units for low and moderate income families under the Family Home Purchase Program, the most attractive in Canada. Approximately $38 million is committed to finance over 600 housing units for our senior citizens.

The Alberta Municipal Financing Corporation will continue to provide significant cost savings for local authorities and their taxpayers by providing financing to them for their capital projects at the government's comparatively attractive borrowing rate. In 1984 the Alberta Municipal Financing Corporation will make an estimated $650 million available in loans to Alberta's cities, towns, school boards and other local entities at rates which provide a significant reduction in the costs borne by property taxpayers.

During 1984 Alberta Government Telephones will continue to upgrade its telecommunications services to Albertans by making capital expenditures of $224 million, mostly in new plant and equipment. The program of improved telephone service to remote areas will be continued.

Capital Projects – Heritage Savings Trust Fund

For 1984-85 more than $287 million was approved last fall for ongoing Heritage Fund capital projects that sustain jobs and provide economic and social benefits for our citizens. Major commitments to our agriculture sector will continue with over $100 million earmarked for irrigation projects, the Farming for the Future Program, flood control and grazing reserves. Support for oil sands and enhanced oil recovery projects and research remains a priority with $50 million approved.

In the health field, $80 million has been provided for the ongoing construction of the Walter C. Mackenzie Health Sciences Centre, for cancer research, and for research and education related to occupational health and safety.

Recreation and parks projects in five urban centres and in Kananaskis Country will receive $47 million.

Taxation

There are no new taxes and no increases in existing tax rates in this budget.

Albertans enjoy the most favourable overall tax environment in Canada. We continue to have the lowest personal income tax rate of any province. We are one of only two provinces with no gasoline tax. And we are the only province with no sales tax. This means, for example, that an Alberta family of four with a $30,000 income pays approximately $1,350 less in provincial taxes than a similar family in Ontario. To ensure that Albertans are fully aware of their favoured tax position in Canada, a special appendix on Alberta's tax structure has been included in this budget address.

Albertans should realize that non-renewable resource revenue, not taxes, currently foots the largest part of the bill for the services we enjoy. In the other provinces the situation is reversed. It is clear that our low tax rates are possible only because of our natural resource wealth. If energy prices or markets deteriorate, or if expenditure on services cannot be contained, there will be no alternative but to look at a combination of service level cuts and tax increases.

MAJOR PROVINCIAL TAX RATES*

	Personal Income Tax					Health Care Premiums		Corporate Income Tax		
	Basic Rate	High Income Surtax	Retail Sales Tax	Gasoline Tax	Tobacco Tax	Individual	Family	Small Business Rate	General Rate	Capital Tax
	(%)	(%)	(%)	(%)	(¢/cig)	($)	($)	(%)	(%)	(%)
British Columbia	47.5	10.0	7	20	2.00	192	408	8	16	0.2
Alberta	**43.5**	**—**	**—**	**—**	**1.48**	**168**	**336**	**5**	**11**	**—**
Saskatchewan	51.0	12.0	5	—	2.08	—	—	10	14	0.3
Manitoba	54.0	20.0	6	16	2.10	—	—	10	16	0.2
Ontario	50.4	—	7	20	2.59	340	680	0	14-15	0.3
Quebec	70-85	—	9	30	2.26	—	—	3	5.5-13	0.45
New Brunswick	58.0	—	10	20	2.96	—	—	9	14	—
Prince Edward Island	52.5	—	10	22	1.50	—	—	—	10	—
Nova Scotia	56.5	—	10	20	1.40	—	—	10	15	—
Newfoundland	60.0	—	12	22	4.78	—	—	12	16	—

* At March 16, 1984. See Appendix G for details.

COMPARISON OF TAKE HOME PAY AFTER PROVINCIAL TAXES
(For a family of four with a gross income of $30,000)

Revenue Outlook

For 1984-85 total budgetary revenue is expected to increase by 4.3% to $9.4 billion. Unlike the situation for most provincial governments who receive the bulk of their revenue from internal sources and federal transfers, our revenue forecast depends to a large extent on developments in external commodity markets for oil and natural gas. This makes revenue forecasting more difficult. The lessons of the seventies and early eighties have proven how volatile these commodity markets can be and underline the importance of restraining expenditure.

Non-Renewable Resource Revenue

The forecast is for total non-renewable resource revenue of $3.55 billion in 1984-85. Conventional oil royalty revenue is forecast to be down by $58 million compared to 1983-84 due to lower production of old oil. While progress has been made towards reducing shut-in oil, there is still uncertainty so the forecast assumes the same level of shut-in oil as in 1983-84. We will continue to work to bring an end to this unnecessary problem. Synthetic oil royalty is expected to decline by $36 million due to increased cost allowances related to the job-creating Syncrude expansion now in progress.

Natural gas royalties are expected to rise by $13 million in 1984-85. We believe that the erosion of our gas exports is behind us and that we should be able to maintain export volumes at 1983-84 levels.

The estimate for the royalty tax credit is $339 million less than the 1983-84 forecast due to the expiration of the enrichment on December 31, 1983 as announced back in April, 1982.

Tax Revenue

Total net tax revenue is expected to increase by $246 million in 1984-85 to $2.7 billion. This is due largely to the 5 point increase in the personal income tax rate announced last October which adds over $200 million. The adjustment to the Selective Tax Reduction which was announced along with the rate increase will direct an additional $10 million to reducing taxes for low income citizens.

Payments from the Government of Canada

Payments from the federal government are expected to decline by $59 million to $968 million in 1984-85. These payments represent 10% of Alberta's total budgetary revenue. By comparison, the other provinces receive, on average, over 20% of their revenue from the federal government.

Heritage Fund Investment Income

The transfer of Heritage Fund investment income is estimated at $1.53 billion, up $25 million from 1983-84.

The 1984-85 Financial Plan

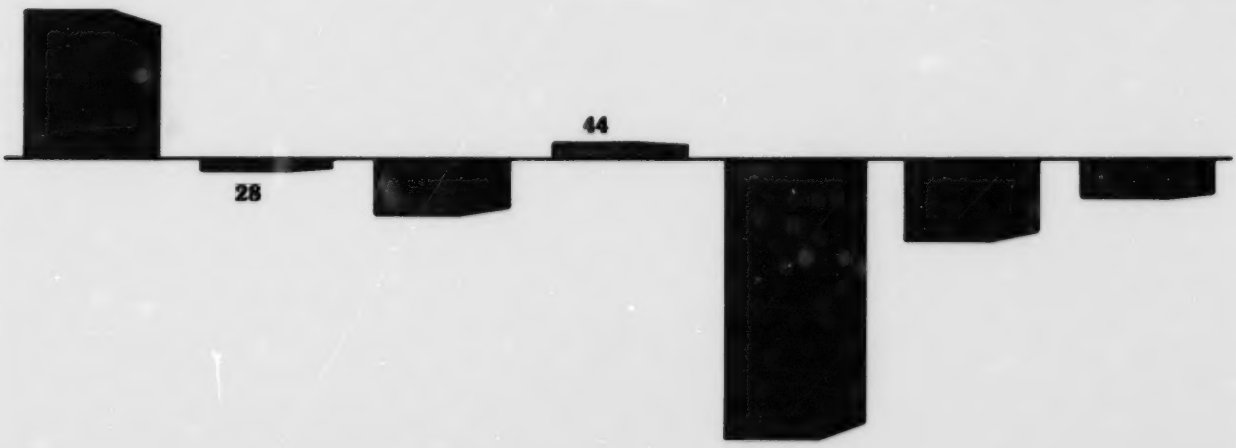
To recap: the budgetary plan for 1984-85 calls for a reduction of 1.7% in total expenditure to $9.644 billion and expected revenue growth of 4.3% to $9.386 billion. This results in a budgetary deficit of $258 million. The 1984-85 budgetary deficit is less than one-half the size of the 1983-84 deficit and one-eighth the size of the 1982-83 budgetary deficit.

SUMMARY BUDGETARY PLAN
(millions of dollars)

	1984-85 Estimate*	1983-84 Forecast	1983-84 Estimate*	1982-83 Actual
Budgetary Revenue				
General Revenue	7,856	7,492	7,340	6,220
Heritage Fund Investment Income	1,530	1,505	1,500	866
	9,386	8,997	8,840	7,086
Budgetary Expenditure				
Voted Appropriations				
Operating	7,705	7,692	7,703	6,997
Capital	1,707	1,773	1,891	2,041
Statutory Appropriations	232	98	219	96
	9,644	9,563	9,813	9,134
Budgetary Deficit	258	566	973	2,048

* Excludes expenditure proposals for the Legislative Assembly.

BUDGETARY SURPLUS AND DEFICIT
(millions of dollars)

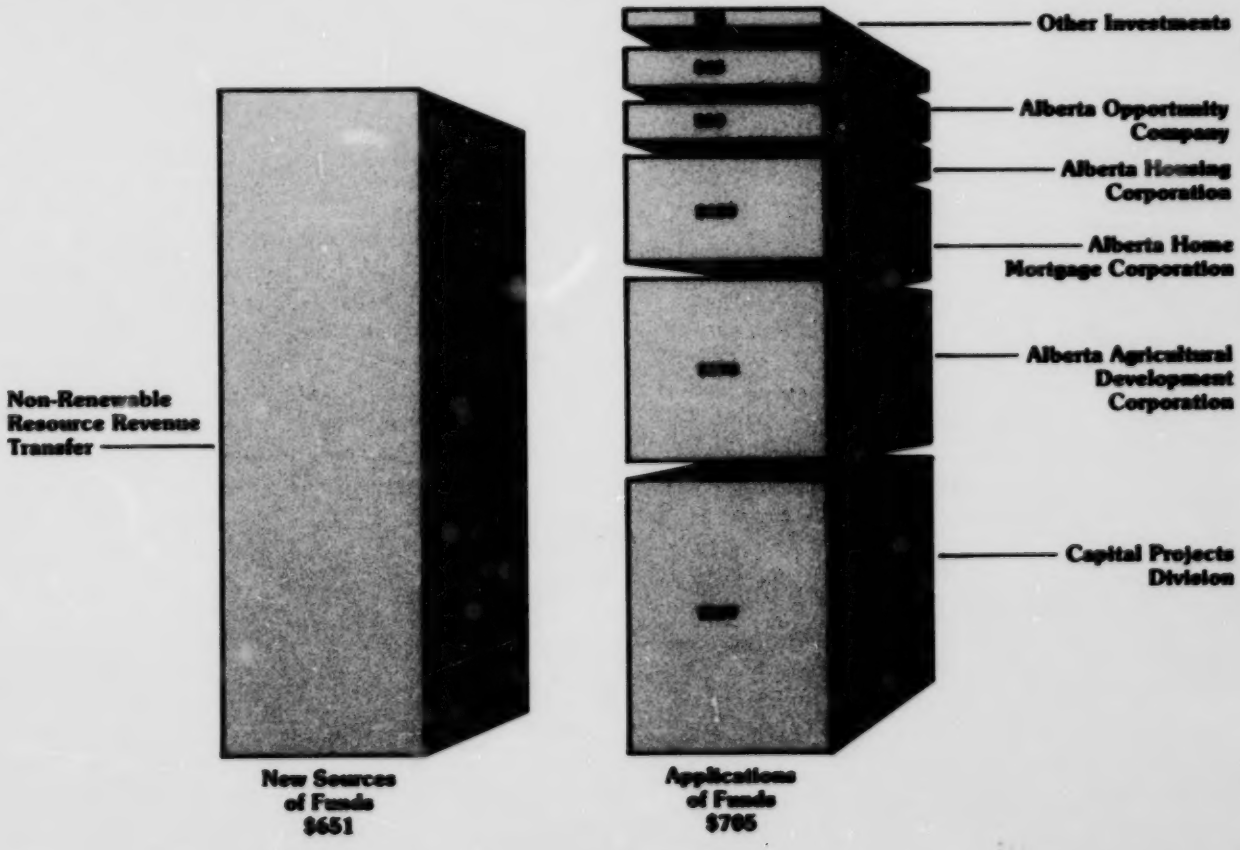


Financing requirements resulting from the 1983-84 budget deficit were met in significant measure by sales of liquid assets previously accumulated in the General Revenue Fund, with the balance met by short-term borrowing.

Depending on market conditions, scope remains to meet some portion of 1984-85 budgetary requirements by disposing of assets. To date the province has in place successful Treasury Bill and Promissory Note borrowing programs in the Canadian market. These programs will be continued, and supplemented by other financing means where necessary, to meet the overall financing requirements in 1984-85.

In 1983 both the Alberta Municipal Financing Corporation and the Alberta Government Telephones Commission had successful debenture issues in the Canadian market, in the amounts of

ALBERTA HERITAGE SAVINGS TRUST FUND — SOURCES AND APPLICATIONS OF FUNDS, 1984-85
(millions of dollars)



$450 million and $150 million respectively. It is anticipated that further capital market borrowings will be undertaken in 1984 to meet the financial requirements of these two corporations.

The Heritage Fund will continue to meet all the long-term borrowing needs of the Alberta Agricultural Development Corporation, the Alberta Housing Corporation, the Alberta Home Mortgage Corporation and the Alberta Opportunity Company in 1984-85. The total requirements for these four corporations in 1984-85 are reduced significantly from their budgeted requirements in 1983-84.

Summary and Highlights

The highlights of the 1984 Alberta budget are:

- A reduction in government expenditure from last year's level – the first in over 40 years.
- A reduction of over 1,100 permanent full-time public sector positions that have become unnecessary in government departments and Crown agencies.
- A further drop in the budgetary deficit to an estimated $258 million in 1984-85.
- No new taxes and no increases in existing tax rates.
- Continued use of Heritage Fund investment income to hold down taxes and reduce the deficit.
- A job-intensive $1.7 billion capital works budget which will create as much employment activity as the record capital budgets of the past two years. As well, capital projects of the Heritage Fund and Crown corporations will total over $1.2 billion.
- Special job creation and manpower training programs valued at over $78 million.
- Maintenance of quality "people programs" through continuation of one of the highest per capita health, education and social service grant levels in Canada.
- Major expansion of the home care program with funding rising by 55% to over $28 million.
- Additional funding to assist students in advanced education.
- A new venture capital program for small business.
- A start on two major, new active treatment hospitals, one in Edmonton and one in Calgary, with an estimated total cost for both of $280 million.

In conclusion, this budget represents a sound financial strategy for Alberta – a strategy of balance. It balances the need to maintain essential people services with the need to constrain operating expenditure. It balances the desire to encourage steady economic recovery and employment growth with the recognition that lasting jobs are created by the private sector. It meets these objectives while at the same time holding down taxes and reducing significantly the deficit and our borrowing requirements. The result is a budget in tune with the times and with the aspirations, needs and expectations of Albertans.

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General Revenue Fund

The General Revenue Fund of the province receives all public money, except money over which the Legislature has no power of appropriation and money which is otherwise specially disposed of by legislation. The Legislature has no power of appropriation over money which is paid in trust to the province to be used for the purposes prescribed by the payer or settlor. Legislation may direct that fees or other revenue be paid into a regulated fund to be used for special purposes. All other public money is paid into the General Revenue Fund.

Expenditure is made from the General Revenue Fund on the authority of supply votes approved by the Legislature, including special warrants ordered by the Lieutenant Governor in Council which are deemed to be supply votes. This expenditure is reported in the General Revenue Fund financial statements as "Budgetary Expenditure – Voted Appropriations".

Expenditure may also be made from the General Revenue Fund on the authority of legislation which may direct the transfer of revenue to another fund, shown in the financial statements as a reduction of budgetary revenue, or which directs certain types of expenditure which are reported as "Budgetary Expenditure – Statutory Appropriations" in the financial statements.

The term "budgetary" is used to describe revenue or expenditure that affects General Revenue Fund net assets.

Non-budgetary transactions affect financial claims or liabilities of the General Revenue Fund but do not change the net assets position. Non-budgetary transactions are primarily related to loans and advances to various government funds and enterprises, the issue and retirement of the province's debt instruments and the purchase and sale of investments by the General Revenue Fund.

A Guide to the Tables

Budgetary revenue is described in terms of two main categories: general revenue and Heritage Fund investment income. General revenue refers to taxes; non-renewable resource revenue; payments from the Government of Canada; fees, permits and licences; utility and trading profits; and other revenue.

The Heritage Fund investment income category highlights the contribution made to budgetary revenue by the transfer of investment income earned on Heritage Fund assets. The transfer of investment income will continue until the overall financial situation improves.

Compared to the presentation of past years, there are several notable changes regarding the non-renewable resource revenue category.

1. The royalty tax credit is now shown as a deduction from non-renewable resource revenue. Previously, it was shown as a deduction from income taxes. This change reflects more accurately the purpose of the royalty tax credit which is to fine-tune the royalty system. The tax system will continue to be used as the administrative vehicle to deliver the program.
2. The deductions for exploratory drilling and geophysical incentives encompass both credits against royalties otherwise payable and cash payments. This recognizes that these incentive programs affect and form part of the royalty system. Previously, the credit amount was shown as a deduction from resource revenue and the cash amount was treated as a budgetary expenditure, reflecting the payment mechanism used to deliver the programs rather than their generic nature.

3. The allocation of non-renewable resource revenue to the Heritage Fund is currently set at 15% which became effective in the 1983-84 fiscal year. In last year's budget, the amount attributable to the reduction in the transfer from 30% to 15% was shown as a separate revenue source to highlight the policy change.

Voted appropriations are divided into eleven functional categories. Department-by-department estimates including the operating and capital components are also provided.

The 1983-84 estimates have been restated to include supplementary estimates of approximately $128 million.

No provision is made for the estimates of the Legislative Assembly, which will be presented separately.

General Revenue Fund
BUDGETARY REVENUE AND EXPENDITURE
(thousands of dollars)

Table A1

	1984-85 Estimate	1983-84 Forecast	1983-84 Estimate	1982-83 Actual
Revenue				
General Revenue				
Taxes	**2,666,000**	2,420,000	2,414,000	2,468,602
Non-Renewable Resource Revenue	**3,553,000**	3,373,000	3,358,000	2,087,487
Payments from Government of Canada	**968,000**	1,027,000	964,000	922,236
Fees, Permits and Licences	**194,000**	169,000	183,000	144,622
Utility and Trading Profits	**306,000**	284,000	272,000	236,479
Other Revenue	**169,000**	219,000	149,000	360,653
	7,856,000	7,492,000	7,340,000	6,220,079
Heritage Fund Investment Income	**1,530,000**	1,505,000	1,500,000	865,720
	9,386,000	8,997,000	8,840,000	7,085,799
Expenditure				
Voted Appropriations				
Health	**2,517,443**	2,363,218	2,406,122	2,099,988
Education	**2,129,100**	2,070,104	2,033,112	1,923,906
Social Services	**1,136,263**	1,087,478	1,153,209	918,621
Regional Planning and Development	**260,305**	254,906	261,440	241,694
Housing	**376,537**	490,014	495,008	307,858
Recreation and Culture	**179,394**	148,209	152,642	185,772
Environment	**95,420**	97,339	95,663	138,944
Resource Conservation and Industrial Development	**662,656**	875,008	767,526	986,328
Transportation and Communication	**1,028,546**	1,108,652	1,125,052	1,239,288
Protection of Persons and Property	**385,253**	376,185	368,828	322,233
General Government	**639,927**	641,835	625,810	672,951
Salary Contingency	**1,000**	—	110,000	—
	9,411,844	9,512,948	9,594,412	9,037,583
Statutory Appropriations	**232,493**	97,786	218,850	95,992
	9,644,337	9,610,734	9,813,262	9,133,575
Allowance for Unexpended Balances	**—**	(48,054)	—	—
	9,644,337	9,562,680	9,813,262	9,133,575
Budgetary Deficit	**258,337**	565,680	973,262	2,047,776

General Revenue Fund
BUDGETARY REVENUE
(thousands of dollars)

Table A2

	1984-85 Estimate	1983-84 Forecast	1983-84 Estimate	1982-83 Actual
Taxes				
Personal income tax	1,741,000	1,518,000	1,548,000	1,662,486
Corporate income tax	615,000	590,000	506,000	565,727
Freehold mineral rights tax	161,000	160,000	182,000	155,897
Tobacco tax	98,000	101,000	125,000	32,606
Insurance corporation tax	33,000	35,000	35,000	32,728
Pari-mutuel tax	10,000	11,000	13,000	11,907
Other	8,000	5,000	5,000	7,251
	2,666,000	2,420,000	2,414,000	2,468,602
Non-Renewable Resource Revenue				
Crude oil royalty	2,650,000	2,708,000	2,550,000	2,337,887
Natural gas and by-products royalty	1,719,000	1,706,000	2,237,000	1,876,362
Synthetic crude oil royalty	259,000	295,000	296,000	362,340
Coal royalty	8,000	8,000	6,000	13,950
Rentals and fees	92,000	96,000	109,000	102,077
Bonuses and sales of Crown leases	475,000	475,000	400,000	336,500
Less: Exploratory drilling and geophysical incentives	(178,000)	(80,000)	(146,000)	(178,923)
Allocation to Alberta Petroleum Incentives Program Fund	(400,000)	(350,000)	(500,000)	(684,321)
Royalty tax credit	(288,000)	(627,000)	(687,000)	(740,582)
	4,337,000	4,231,000	4,265,000	3,425,290
Allocation to Alberta Heritage Savings Trust Fund	(651,000)	(728,000)	(743,000)	(1,236,490)
Allocation to Natural Gas Rebates Fund	(133,000)	(130,000)	(164,000)	(101,313)
	3,553,000	3,373,000	3,358,000	2,087,487
Payments from Government of Canada				
Canada assistance plan	340,000	361,000	375,000	306,784
Hospital insurance	265,000	254,000	244,000	207,376
Post-secondary education	144,000	150,000	156,000	131,938
Extended health care	95,000	86,000	86,000	77,102
Training of manpower	45,000	46,000	43,000	43,385
Oil export charge	28,000	80,000	10,000	100,712
Other	51,000	50,000	50,000	54,939
	968,000	1,027,000	964,000	922,236
Fees, Permits and Licences				
Motor vehicle licences	98,000	76,000	83,000	52,257
Land titles	22,000	22,000	25,000	21,365
Timber rentals and fees	12,000	11,000	11,000	10,978
Other	62,000	60,000	64,000	60,022
	194,000	169,000	183,000	144,622
Utility and Trading Profits				
Alberta Liquor Control Board	305,000	283,000	270,000	236,300
Other	1,000	1,000	2,000	179
	306,000	284,000	272,000	236,479
Other Revenue				
Investment income	70,000	120,000	59,000	237,538
Refunds of expenditure	42,000	42,000	42,000	59,237
Fines and penalties	23,000	23,000	23,000	18,609
Sales of assets	4,000	4,000	12,000	17,905
Miscellaneous	30,000	30,000	13,000	27,364
	169,000	219,000	149,000	360,653
Total General Revenue	7,896,000	7,492,000	7,340,000	6,220,079
Heritage Fund Investment Income	1,530,000	1,505,000	1,500,000	865,720
Total Budgetary Revenue	9,396,000	8,997,000	8,840,000	7,085,799

General Revenue Fund
DEDUCTIONS FROM INCOME TAX REVENUE
(thousands of dollars)

Table A3

	1984-85 Estimate	1983-84 Forecast	1983-84 Estimate	1982-83 Actual
Personal Income Tax				
Renter assistance credit	77,000	39,000	39,000	37,332
Corporate Income Tax				
Rental investment credit	3,000	1,000	15,000	476
Allocation to Utility Companies Income Tax Rebates Fund	59,000	57,000	25,000	42,862
	62,000	58,000	40,000	43,338
Total	139,000	97,000	79,000	80,670

General Revenue Fund **TABLE A4**
BUDGETARY EXPENDITURE – VOTED APPROPRIATIONS
(thousands of dollars)

	1984-85 Estimate[a]	1983-84 Forecast	1983-84 Estimate	1982-83 Actual
Legislative Assembly	—	22,547	—	23,652
Government				
Advanced Education	871,436	847,638	818,566	809,188
Agriculture	194,576	189,434	191,293	199,328
Attorney General	128,798	125,953	118,996	105,803
Consumer and Corporate Affairs	25,437	25,656	25,222	22,771
Culture	70,738	49,587	51,000	77,564
Economic Development	84,577	28,787	94,738	26,722
Education	1,158,115	1,108,992	1,117,072	1,038,496
Energy and Natural Resources	217,875	478,157	303,513	567,311
Environment	95,421	97,339	95,663	137,645
Executive Council	131,318	128,635	127,923	120,290
Federal and Intergovernmental Affairs	5,841	5,674	5,441	5,030
Hospitals and Medical Care	2,283,380	2,141,675	2,204,211	1,902,867
Housing	376,537	490,014	495,008	307,858
Labour	26,210	25,561	25,261	22,629
Manpower	83,416	97,341	81,341	63,169
Municipal Affairs	370,482	358,760	371,748	305,141
Public Works, Supply and Services	543,546	526,192	532,059	552,790
Recreation and Parks	108,656	98,622	101,642	120,556
Social Services and Community Health	1,222,565	1,167,708	1,208,542	1,016,395
Solicitor General	213,600	206,371	207,871	184,103
Tourism and Small Business	36,756	56,253	50,903	74,754
Transportation	842,247	854,300	854,321	967,654
Treasury	133,019	127,400	131,347	114,574
Utilities and Telecommunications	186,298	254,352	270,731	271,293
Salary Contingency	1,000	—	110,000	—
	9,411,844	9,490,401	9,594,412	9,013,931
Allowance for Unexpended Balances[b]	—	(48,054)	—	—
Total	9,411,844	9,464,894	9,594,412	9,037,583

[a] The 1984-85 estimate does not include expenditure proposals for the Legislative Assembly which will be presented in a separate document.

[b] The 1983-84 forecast includes an allowance for lapsed expenditure authority based on historical trends.

Table A5

General Revenue Fund
VOTED APPROPRIATIONS – OPERATING AND CAPITAL EXPENDITURE
(thousands of dollars)

	1984-85 Estimate		
	Operating	**Capital**	**Total**
Advanced Education	732,923	138,513	871,436
Agriculture	186,163	8,413	194,576
Attorney General	128,115	683	128,798
Consumer and Corporate Affairs	21,128	4,309	25,437
Culture	47,504	23,234	70,738
Economic Development	26,248	58,329	84,577
Education	1,096,886	61,229	1,158,115
Energy and Natural Resources	205,612	12,263	217,875
Environment	64,658	30,763	95,421
Executive Council	129,071	2,247	131,318
Federal and Intergovernmental Affairs	5,817	24	5,841
Hospitals and Medical Care	1,983,883	299,497	2,283,380
Housing	369,883	6,654	376,537
Labour	26,003	207	26,210
Manpower	83,220	196	83,416
Municipal Affairs	368,375	2,107	370,482
Public Works, Supply and Services	301,424	242,122	543,546
Recreation and Parks	59,246	49,410	108,656
Social Services and Community Health	1,219,832	2,733	1,222,565
Solicitor General	212,319	1,281	213,600
Tourism and Small Business	36,710	46	36,756
Transportation	192,135	650,112	842,247
Treasury	132,422	597	133,019
Utilities and Telecommunications	74,044	112,254	186,298
Salary Contingency	1,000	—	1,000
Total	7,704,621	1,707,223	9,411,844

General Revenue Fund **Table A6**
BUDGETARY EXPENDITURE – STATUTORY APPROPRIATIONS
(thousands of dollars)

	1984-85 Estimate	1983-84 Forecast	1983-84 Estimate	1982-83 Actual
Revolving Funds (net)				
Culture Revolving Fund	17	(180)	(179)	151
Gas Alberta Operating Fund	—	(193)	(193)	672
Land Purchase Fund	49,400	3,575	49,490	62,779
Personnel Administration Revolving Fund	8	—	—	—
Public Works, Supply and Services Revolving Fund	(3,767)	4,420	1,654	(8,414)
School Book Branch	2,354	(571)	(571)	(2,201)
Transportation Revolving Fund	(4,836)	(17,101)	12,838	(1,155)
Water Resources Revolving Fund	51	70	42	496
	43,227	(9,980)	63,081	52,328
Alberta Health Care Insurance Act	—	—	—	7,889
Blind Workers' Compensation Act	3	3	3	2
Retirement Annuities Act	13	13	16	16
Provision for doubtful accounts and loans	14,000	4,000	4,000	40,501
Provision for reduction of investments to market	—	—	—	(90,219)
Provision for exchange on debt payable in United States funds	250	250	250	108
Corporate tax interest refunds	5,000	3,500	1,500	7,173
Debt servicing costs	170,000	100,000	150,000	78,194
	189,266	107,766	155,769	43,664
Total	232,493	97,786	218,850	95,992

General Revenue Fund
NON-BUDGETARY TRANSACTIONS
(thousands of dollars)

Table A7

	1984-85 Estimate	1983-84 Forecast	1982-83 Actual
Receipts			
Repayment of Loans and Advances:			
Government enterprises	40,170	40,850	38,023
Other loans and advances	2,894	2,123	6,899
Issue of:			
Treasury bills	2,538,300	2,540,313	1,866,157
Promissory notes	2,394,000	636,400	500,000
Total Receipts	4,974,764	3,219,686	2,411,079
Disbursements			
Loans and Advances:			
Government enterprises	90,600	324,900	39,566
Other loans and advances	1,700	1,400	4,005
Debt Retirement:			
Redemption of:			
Treasury bills	2,600,000	2,600,000	1,270,000
Promissory notes	1,800,000	542,600	500,000
Sinking fund	13,000	13,000	12,834
Total Disbursements	4,505,300	3,481,900	1,826,405

General Revenue Fund **Table A8**
REPORTED ASSETS, LIABILITIES AND NET ASSETS
March 31, 1983*
(thousands of dollars)

	1983	1982
Assets		
Cash and term deposits	728,855	1,267,073
Accounts receivable	751,510	971,562
Investments – marketable securities	556,727	881,863
Investments – long term	96,137	59,791
Loans and advances to government enterprises	50,040	48,555
Loans and advances – other	42,552	45,665
	2,225,821	3,274,509
Liabilities and Net Assets		
Liabilities		
Accounts and loans payable	1,102,690	741,731
Unearned revenue and suspense	56,670	60,764
Unmatured debt	778,483	136,260
	1,937,843	938,755
Net Assets		
Net assets at beginning of year	2,335,754	2,292,143
Budgetary surplus (deficit)	(2,047,776)	43,611
Net assets at end of year	287,978	2,335,754
	2,225,821	3,274,509
Guarantees and indemnities	384,123	377,954

* Readers should refer to the Public Accounts of Alberta for explanatory notes and supporting schedules.

General Revenue Fund
CHANGE IN UNMATURED DEBT
(thousands of dollars)

Table A9

Unmatured debt at March 31, 1983		778,483
Add:		
Issue of 91 day Treasury bills	1,905,738	
Issue of promissory notes	40,000	
Amortization of discount	44,401	
Other	303	
	1,990,442	
Deduct:		
Redemption of 91 day Treasury bills	1,950,000	
Sinking fund contribution	3,834	
Sinking fund earnings	9,474	
	1,963,308	
		27,134
Unmatured debt at December 31, 1983		805,617

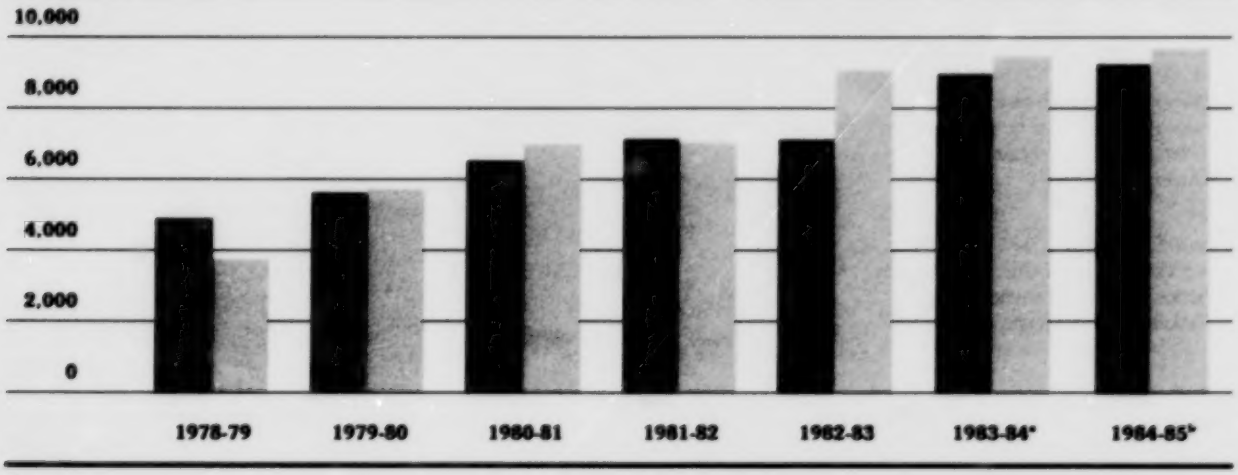
General Revenue Fund
GUARANTEES AND INDEMNITIES[a]
(thousands of dollars)

Table A10

	At December 31	At March 31[b]	
	1983	1983	1982
Guaranteed Debenture Debt			
AEC Power Ltd.	227,289	237,474	242,667
Guaranteed Loans			
AEC Power Ltd.	14,897	12,123	7,289
Government Emergency Guarantee Act	14,116	14,331	14,522
Students Loan Guarantee Act	71,987	65,568	40,517
Vencap Equities Alberta Ltd.	40,000	—	—
Other	9,014	45,627	72,959
	150,014	137,649	135,287
Indemnities	9,000	9,000	—
Total	386,303	384,123	377,954

[a] Excludes guaranteed liabilities of government entities.
[b] Readers should refer to the Public Accounts of Alberta for explanatory notes and supporting schedules.

BUDGETARY REVENUE AND EXPENDITURE
(millions of dollars) **Chart A1**

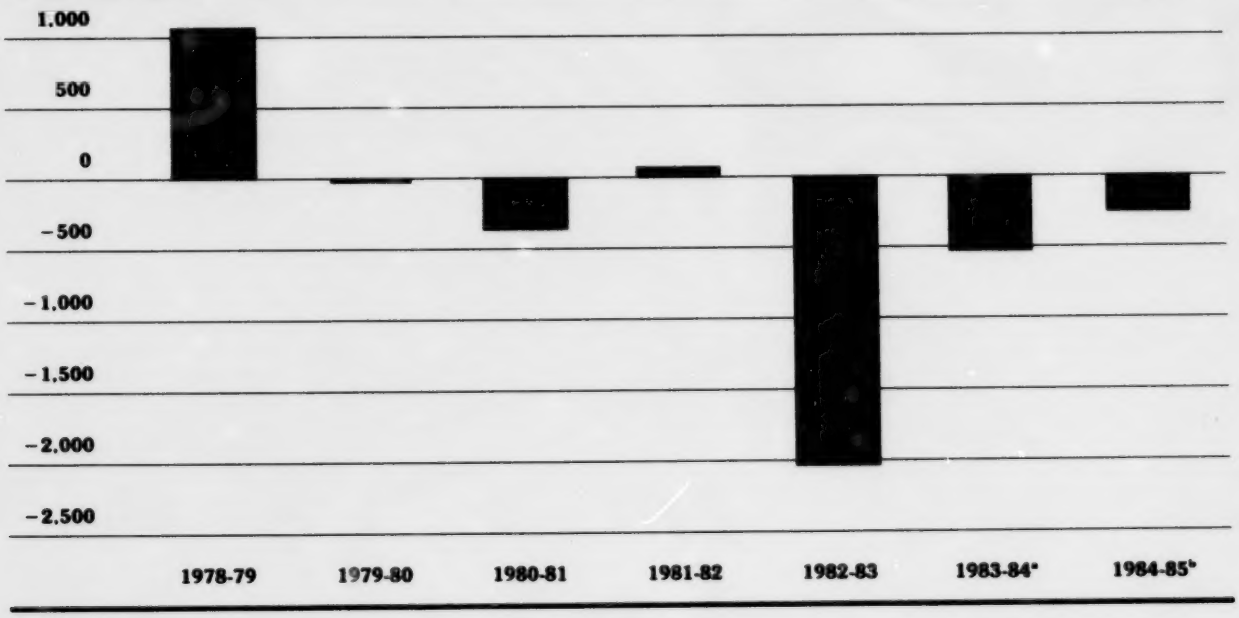


[a] Forecast
[b] Estimate

General Revenue
Heritage Fund Investment Income
Expenditure

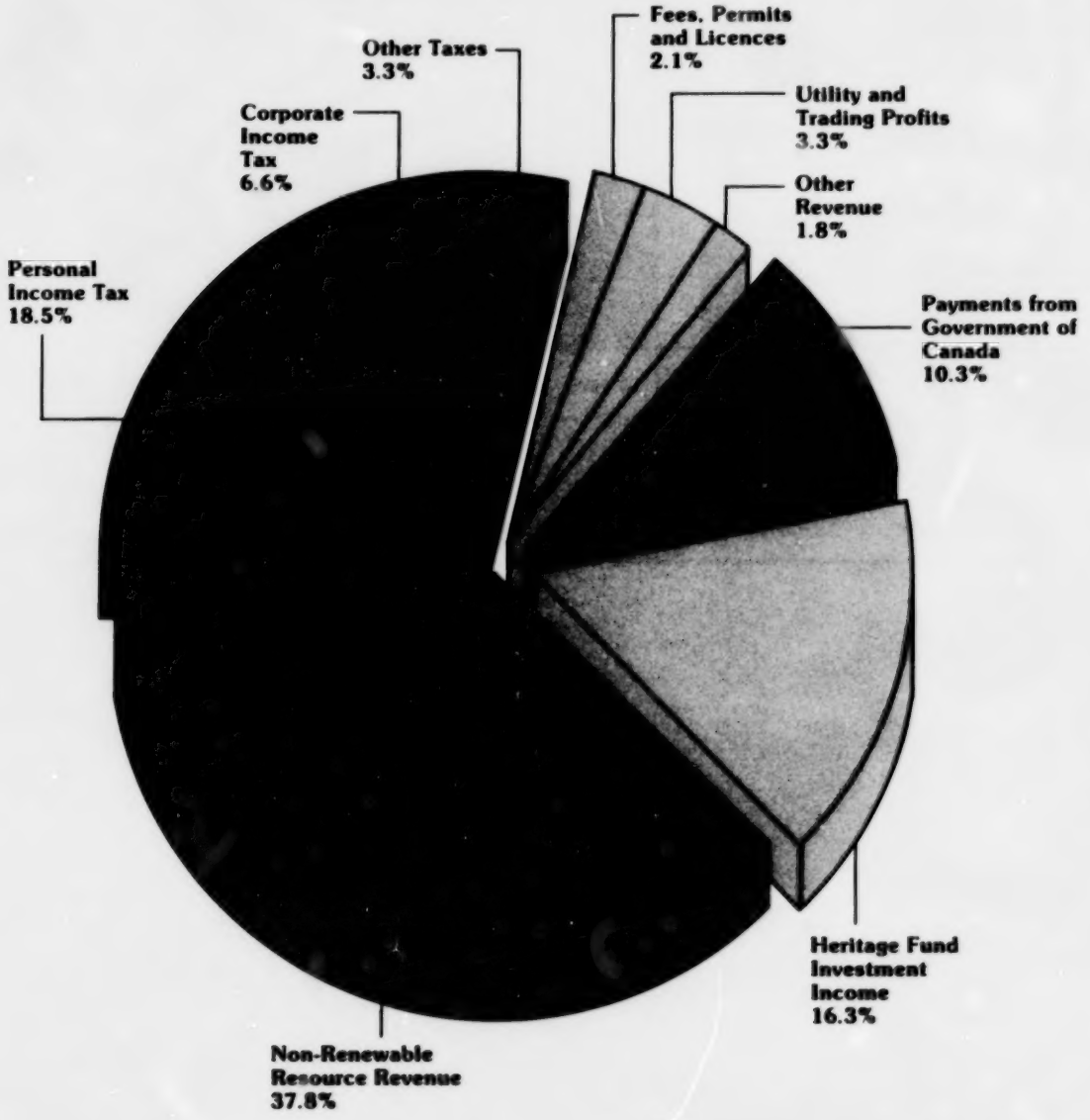
BUDGETARY SURPLUS AND DEFICIT
(millions of dollars)

Chart A2

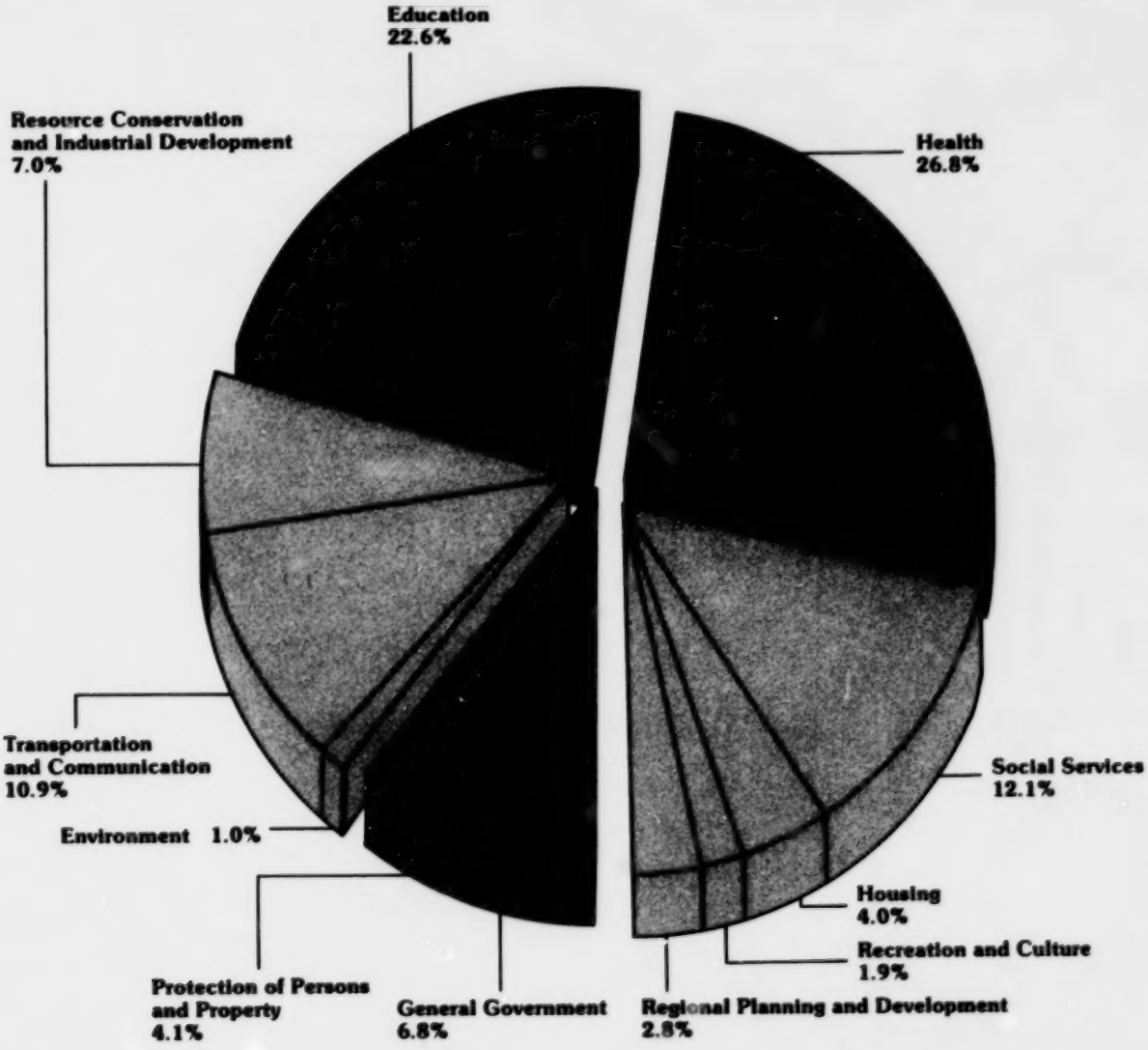


[a] Forecast
[b] Estimate

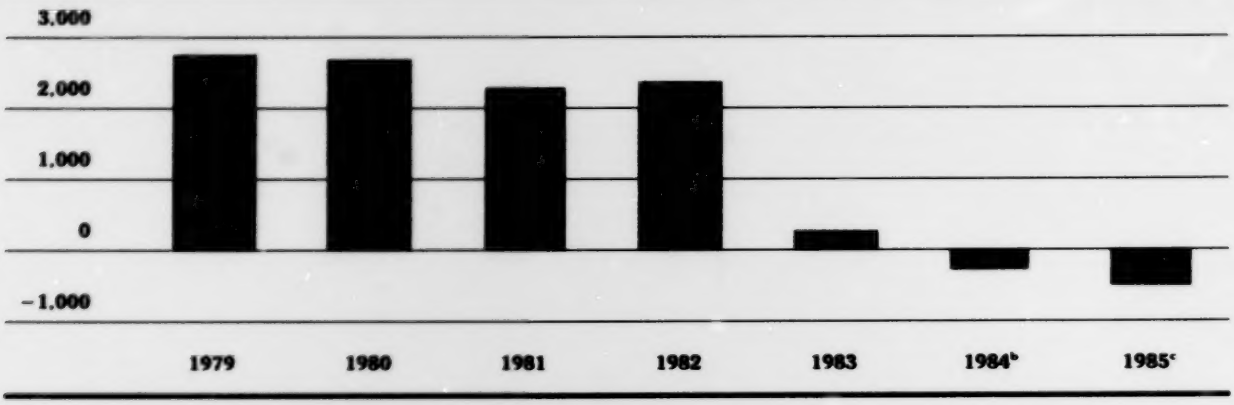
PERCENTAGE DISTRIBUTION OF BUDGETARY REVENUE BY MAJOR SOURCE, 1984-85 ESTIMATE **Chart A3**


Fees, Permits and Licences 2.1%
Other Taxes 3.3%
Utility and Trading Profits 3.3%
Corporate Income Tax 6.6%
Other Revenue 1.8%
Personal Income Tax 18.5%
Payments from Government of Canada 10.3%
Heritage Fund Investment Income 16.3%
Non-Renewable Resource Revenue 37.8%

PERCENTAGE DISTRIBUTION OF VOTED APPROPRIATIONS BY MAJOR FUNCTION, 1984-85 ESTIMATE **Chart A4**



NET ASSETS (DEBT) OF THE GENERAL REVENUE FUND[a]
(millions of dollars) **Chart A5**



[a] Years ended March 31
[b] Forecast
[c] Estimate

Tables and Charts

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B2 Sources and Applications of Funds 52

Charts

B1 New Financing Provided to Provincial Crown Corporations 53

B2 Composition of Alberta Heritage Savings Trust Fund at March 31, 1984 54

Alberta Heritage Savings Trust Fund

The Alberta Heritage Savings Trust Fund annually receives a portion of the province's non-renewable resource revenue. From 1976-77 to 1982-83, 30% of this revenue was transferred to the Heritage Fund. In 1983-84 the proportion was reduced to 15% and will continue at that level in 1984-85. Since September 1982, all of the net investment income earned by the Heritage Fund has been transferred to the General Revenue Fund to finance the Alberta Economic Resurgence Plan and to help meet other budgetary needs.

Under recent amendments to the Alberta Heritage Savings Trust Fund Act, the Legislature will need to approve, by resolution, the maximum amount the Heritage Fund may invest in a provincial Crown corporation each fiscal year. Accordingly, a resolution will be presented to the Legislature seeking authority for the Heritage Fund to make investments of up to $405 million in four Crown corporations as set out in Table B1.

Estimates of the Heritage Fund's sources and applications of funds in 1984-85 are presented in Table B2.

Alberta Municipal Financing Corporation and Alberta Government Telephones are expected to continue to meet their financing requirements in 1984-85 by borrowing in the capital market.

Alberta Heritage Savings Trust Fund **Table B1**
PROPOSED MAXIMUM INVESTMENTS IN PROVINCIAL CROWN CORPORATIONS
(thousands of dollars)

	1984-85 Estimate
Alberta Agricultural Development Corporation	190,000
Alberta Home Mortgage Corporation	120,000
Alberta Housing Corporation	50,000
Alberta Opportunity Company	45,000
Total	405,000

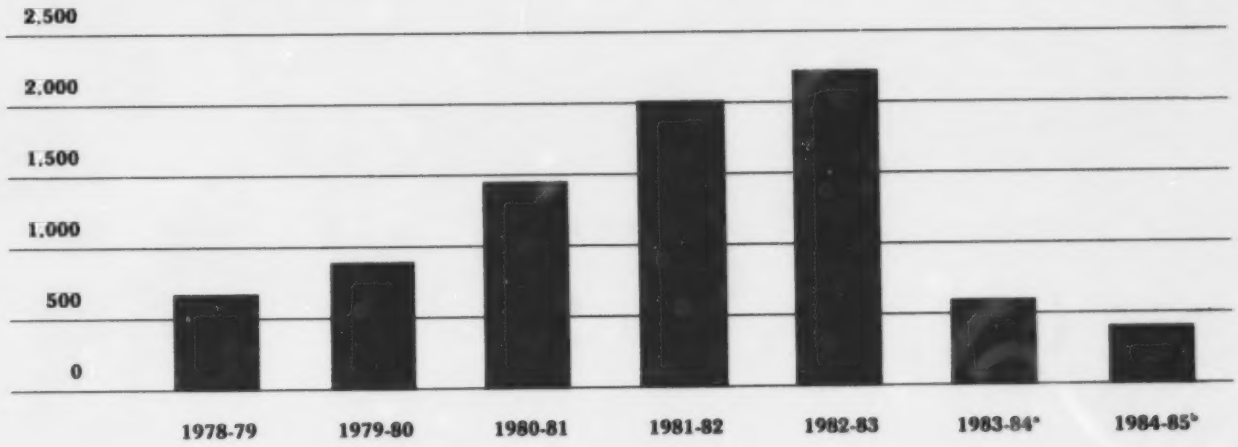
Alberta Heritage Savings Trust Fund **Table B2**
SOURCES AND APPLICATIONS OF FUNDS
(thousands of dollars)

	1984-85 Estimate	1983-84 Forecast	1983-84 Estimate	1982-83 Actual
New Sources of Funds				
Non-Renewable Resource Revenue Transfer[a]	651,000	728,000	743,000	1,356,415
Net Investment Income	1,530,000	1,505,000	1,500,000	1,484,090
Transfer of Investment Income to General Revenue Fund	(1,530,000)	(1,505,000)	(1,500,000)	(865,720)
Total Sources	651,000	728,000	743,000	1,974,785
Applications of Funds				
Capital Projects Division				
Loan to Vencap Equities Alberta Ltd.	—	200,000	200,000	—
Other Projects	287,000	325,400	405,470	295,598
	287,000	525,400	605,470	295,598
Alberta Investment Division – Provincial Corporations				
Alberta Agricultural Development Corporation	190,000	144,000	223,600	181,000
Alberta Home Mortgage Corporation	120,000	220,000	400,000	700,000
Alberta Housing Corporation	50,000	170,000	353,100	300,000
Alberta Opportunity Company	45,000	42,000	60,500	58,000
Alberta Government Telephones	—	15,000	15,000	339,473
Alberta Municipal Financing Corporation	—	—	—	664,223
	405,000	591,000	1,052,200	2,242,696
Other Investments[b]	13,000	86,000	96,500	32,970
Total Applications	705,000	1,202,400	1,754,170	2,571,264
Sources Less Applications	(54,000)	(474,400)	(1,011,170)	(596,479)
Repayments, Maturities and Disposals[c]	205,000	792,000	450,000	463,558
Provision for Non-Cash Items and Administrative Expenses	(35,000)	(79,500)	(75,000)	(147,603)
Decrease (Increase) in Marketable Securities at Cost	(116,000)	(238,100)	—[d]	280,524
Financing from Other Sources	—	—	636,170	—
	54,000	474,400	1,011,170	596,479

[a] 30% transfer in 1982-83 and 15% transfer in 1983-84 and 1984-85.
[b] Includes investments in the Prince Rupert grain terminal and Syncrude under the Alberta Investment Division and investments under the Commercial Investment Division.
[c] Excludes Marketable Securities except in the 1983-84 estimate which is as shown in the 1983 Budget Address.
[d] The 1983 budget estimate did not identify the change in Marketable Securities as a separate item.

NEW FINANCING PROVIDED TO PROVINCIAL CROWN CORPORATIONS BY THE ALBERTA HERITAGE SAVINGS TRUST FUND
(millions of dollars)

Chart B1

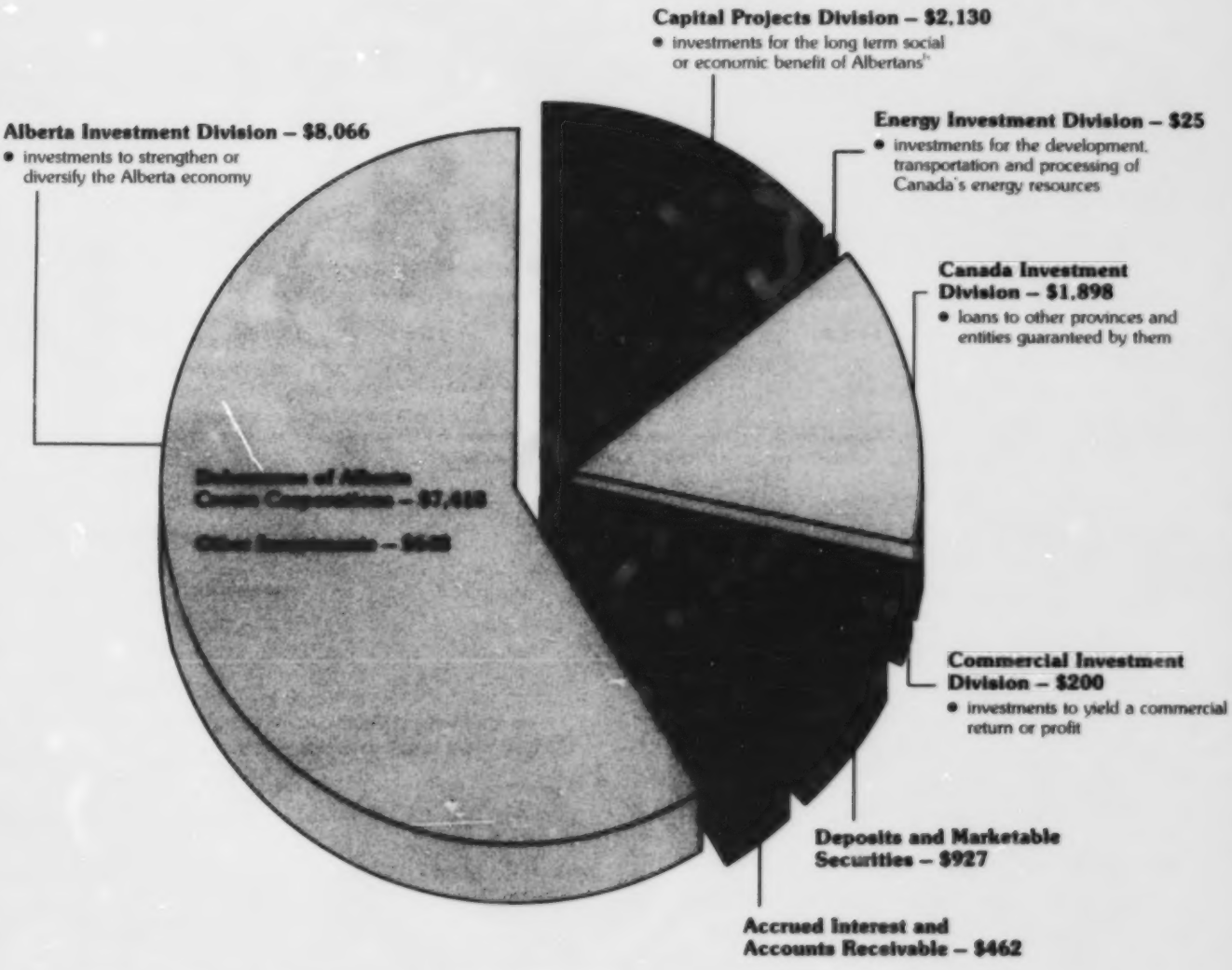


[a] Forecast
[b] Estimate
Note: Since early in 1983 the Alberta Municipal Financing Corporation and Alberta Government Telephones have issued debentures in public markets, rather than to the Heritage Fund, to meet a large portion of their financing requirements.

COMPOSITION OF ALBERTA HERITAGE SAVINGS TRUST FUND AT MARCH 31, 1984*
(millions of dollars)

Chart B2

Total Assets $13,708


Capital Projects Division – $2,130
• investments for the long term social or economic benefit of Albertans[b]
Energy Investment Division – $25
• investments for the development, transportation and processing of Canada's energy resources
Canada Investment Division – $1,898
• loans to other provinces and entities guaranteed by them
Commercial Investment Division – $200
• investments to yield a commercial return or profit
Deposits and Marketable Securities – $927
Accrued Interest and Accounts Receivable – $462
Alberta Investment Division – $8,066
• investments to strengthen or diversify the Alberta economy

* Forecast

[b] Capital Projects may not necessarily yield a return and are reported as deemed assets in the financial statements of the Heritage Fund.

Tables

C1 Alberta Agricultural Development Corporation 59
C2 Alberta Home Mortgage Corporation 61
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C4 Alberta Municipal Financing Corporation 65
C5 Alberta Opportunity Company 67

Provincial Crown Corporations – Capital Budgets

The 1984-85 capital budgets and financing requirements of five major provincial Crown corporations are contained in this appendix: Alberta Agricultural Development Corporation, Alberta Opportunity Company, Alberta Home Mortgage Corporation, Alberta Housing Corporation and Alberta Municipal Financing Corporation. The first four of these corporations receive direct support from the General Revenue Fund enabling them to deliver their programs to Albertans at less than their actual cost. Through a program of Alberta Municipal Affairs, grants are provided to municipalities to reduce the effective interest costs on many of Alberta Municipal Financing Corporation's outstanding loans. Details of these contributions can be found in the 1984-85 Government Estimates.

To carry out their capital programs these Crown corporations will borrow primarily by issuing debentures. Approval of the Legislative Assembly will be sought to allow the Alberta Heritage Savings Trust Fund to invest in debentures to be issued by Alberta Agricultural Development Corporation, Alberta Opportunity Company, Alberta Housing Corporation and Alberta Home Mortgage Corporation. These corporations have borrowed from the Heritage Fund in previous years.

Alberta Municipal Financing Corporation will meet its capital requirements by borrowing in capital markets and by issuing debentures to the Canada Pension Plan Investment Fund.

Alberta Agricultural Development Corporation

Alberta Agricultural Development Corporation provides loans and loan guarantees to farmers and agribusinesses. The Corporation's programs are designed to foster the establishment and maintenance of family farms and improvements in their productivity, and to encourage processing, within Alberta of the province's agricultural products.

During 1984-85 the Corporation expects to commit $170 million in direct loans to agricultural producers and agribusinesses. Direct loans are made at preferred rates of interest and some borrowers are eligible for incentive rebates of part of their interest costs.

The Corporation's largest program is the Beginning Farmer Program which provides loans and incentive rebates to individuals whose farms are in an early stage of development. Loan commitments under this program are expected to total $130.5 million in 1984-85, while other direct farm and agribusiness loans are estimated to amount to $39.5 million. To finance the Corporation's lending activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $190 million in debentures of the Corporation in 1984-85.

In order to provide incentive rebates and other subsidies to Albertans who borrow from it and to cover operating expenses in 1984-85, the Corporation will receive a budgetary appropriation of $80.4 million through Alberta Agriculture.

ALBERTA AGRICULTURAL DEVELOPMENT CORPORATION
(thousands of dollars)

Table C1

	1984-85 Estimate	1983-84 Forecast
Programs		
Direct Lending:		
Beginning Farmer Loans	**130,500**	138,000
Part A Farm Loans	**18,000**	6,000
Part B Farm Loans	**11,500**	2,000
Agribusiness Loans	**10,000**	23,000
Total Direct Lending	**170,000**	169,000
Loan Guarantees:		
General Guarantee Agreements		
Alberta Farm Development Loans	**92,000**	90,000
Specific Guarantee Agreements		
Farm Loans	**7,800**	5,000
Agribusiness Loans	**50,000**	30,000
Total Guarantees	**149,800**	125,000
Financing		
Cash Required For:		
Programs	**192,800**	146,200
Debenture repayments	**19,800**	15,000
Total Cash Requirements	**212,600**	161,200
Sources of Financing:		
Decrease in cash balance	**5,200**	2,200
Loan repayments and guarantee recoveries	**17,400**	15,000
Debentures issued to the Heritage Fund	**190,000**	144,000
Total Sources	**212,600**	161,200

Alberta Home Mortgage Corporation

Alberta Home Mortgage Corporation's lending programs assist in providing affordable rental and ownership housing for low to middle income Albertans.

During 1984-85 the Corporation, through its Family Home Purchase Program, will commit $103 million to provide 2,000 mortgage loans for the purchase of existing homes throughout Alberta and $18 million to provide mortgage financing for the construction of 300 new housing units in smaller centres.

In total, the Corporation expects to make commitments of $139 million to finance 2,700 home ownership and rental housing units. Up to 1,000 mobile homes will be insured through a new mortgage insurance program. In addition, $9 million is expected to be committed through other programs.

To finance these activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $120 million in debentures of the Corporation. The Corporation will also borrow an estimated $15 million (net) by issuing notes to finance one-year mortgages.

In addition to its capital funding for 1984-85, the Corporation will receive a budgetary appropriation of $100.3 million through Alberta Housing to meet subsidy and operating costs. The subsidies available through the Corporation's programs to eligible Alberta borrowers help make housing affordable for many thousands of our citizens.

ALBERTA HOME MORTGAGE CORPORATION
(thousands of dollars)

Table C2

	1984-85 Estimate	(# units)		1983-84 Forecast	(# units)	
Programs						
Home Ownership:						
Alberta Family Home Purchase Program	121,000	2,300		90,000	1,400	
Rural and Native Housing	11,000	200		16,000	250	
Mortgage Insurance for Mobile Homes	—	1,000		—	350	
Total Home Ownership	132,000	3,500		106,000	2,000	
Rental Accommodation:						
Core Housing Incentive Program	—	—		10,000	250	
Modest Apartment Program	7,000	200		8,000	200	
NHA Non-Profit	—	—		3,000	50	
Total Rental Accommodation	7,000	200		21,000	500	
Other Programs:						
Mobile Home Parks (stalls)	4,000	250		8,000	500	
Residential Land Development (lots)	—	—		—	—	
Revolving Trunk Servicing	5,000	—		5,000	—	
Total Other Programs	9,000	250	stalls	13,000	500	stalls
		3,700	units		2,500	units
Total Commitments	148,000	250	stalls	140,000	500	stalls
Financing						
Cash Required For:						
Programs	150,000			267,000		
Debenture repayments	100,000			173,000		
Note repayments*	40,000			—		
Total Cash Requirements	290,000			440,000		
Sources of Financing:						
Mortgage repayments	115,000			180,000		
Short term notes	55,000			40,000		
Debentures issued to the Heritage Fund	120,000			220,000		
Total Sources	290,000			440,000		

* Repayment of notes to fund one year mortgage renewals.

Alberta Housing Corporation

The primary objective of the Alberta Housing Corporation is to provide affordable housing for senior citizens and low to middle income Albertans. The Corporation's activities include programs to construct apartments for self-sufficient senior citizens and lodge accommodation for seniors who are healthy and active but who no longer wish to maintain an independent household. Through its Community Housing Program, the Corporation provides housing for low and moderate income Albertans unable to find adequate accommodation in the marketplace. In addition, the Corporation offers other special housing programs such as transitional housing for native Albertans and land development programs.

In 1984-85 the Alberta Housing Corporation is expected to make commitments of $49.4 million for the provision of 760 housing units. The largest part of this budget is for senior citizens lodge and self-contained units. The Corporation also expects to commit $7.3 million to land programs.

To provide the financing for its housing activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $50 million in debentures of the Corporation.

In 1983-84 decisions were taken to refinance the debentures issued to the Heritage Fund in past years by the Alberta Housing Corporation to purchase its land inventory. Alberta Housing Corporation debentures totalling $278.9 million are forecast to be refinanced during 1983-84 by way of an interest-free advance from the General Revenue Fund. Refinancing its land inventories with an interest-free advance will allow the Corporation to reduce its future debt servicing costs. Further advances estimated at $42.6 million will be made to the Corporation for land activities in 1984-85.

During 1984-85 the Corporation will receive $119.3 million from a budgetary appropriation through Alberta Housing in order to provide subsidized housing and meet operating and other costs.

ALBERTA HOUSING CORPORATION
(thousands of dollars)

Table C3

	1984-85 Estimate	(# units)	1983-84 Forecast	(# units)
Programs				
Housing Programs:				
Staff Housing	2,000	20	2,900	30
Community Housing	7,200	100	2,100	30
Senior Citizens Lodges	5,500	110	7,200	150
Senior Citizens Self-Contained	32,200	500	18,400	300
Transitional Housing	2,500	30	2,400	30
Total Housing	49,400	760	33,000	540
Land Programs:				
Land Banking and Development	5,000		18,300	
Fort McMurray Development	—		40,300	
Industrial Land	2,300		2,200	
Total Land	7,300		60,800	
Total Commitments	56,700	760	93,800	540
Financing				
Cash Required For:				
Programs	97,600		178,200	
Debenture repayments	6,600		7,700	
Redemption of debentures	—		278,900	
Total Cash Requirements	104,200		464,800	
Sources of Financing:				
Land sales	5,000		8,200	
General Revenue Fund budgetary appropriation for debt retirement*	6,600		7,700	
Advances from the General Revenue Fund (net)	42,600		278,900	
Debentures issued to the Heritage Fund	50,000		170,000	
Total Sources	104,200		464,800	

* Included in Vote 4, Alberta Housing

Alberta Municipal Financing Corporation

The Alberta Municipal Financing Corporation makes loans to municipalities, school systems and hospitals at interest rates based on its cost of obtaining funds. The Corporation's municipal borrowers benefit from its access to the Canada Pension Plan Investment Fund and from a provincial government guarantee of the Corporation's borrowings.

In the 1984 calendar year, the Corporation expects to lend $650 million to Alberta municipalities, school districts and hospital boards. The Corporation will finance this lending activity by borrowing in capital markets and from the Canada Pension Plan Investment Fund. Borrowing requirements may be less than the estimated level if recently announced policy changes result in significant prepayments of loans by local authorities.

Through the Municipal Debenture Interest Rebate Program, funded by a budgetary appropriation through Alberta Municipal Affairs, the government will provide municipalities, and hence their property taxpayers, with grants totalling $115.0 million to reduce actual interest costs on many of the Corporation's outstanding loans.

ALBERTA MUNICIPAL FINANCING CORPORATION
(thousands of dollars)

Table C4

	1984 Estimate	1983 Actual
Programs		
Direct Lending:		
Municipal Loans	495,000	444,417
School Loans	150,000	174,801
Hospital Loans	5,000	2,978
Total Direct Lending	650,000	622,196
Financing		
Cash Required For:		
Direct lending	650,000	622,196
Debt repayments including sinking fund contributions	199,500	365,914
Other	50,000	46,839
Total Cash Requirements	899,500	1,034,949
Sources of Financing:		
Change in cash balance	—	14,828
Loan repayments	200,000	211,226
From sinking fund on debt retirement	40,000	41,000
Short term notes (net)	(32,000)	32,000
Debentures issued to the Canada Pension Plan Investment Fund	340,400	298,582
Debentures issued in the capital market	351,100	437,313
Total Sources	899,500	1,034,949

Alberta Opportunity Company

The Alberta Opportunity Company provides loans, loan guarantees and financial guidance to small businesses throughout the province in order to promote the growth and diversification of the provincial economy. Loans are extended on a "lender of last resort" basis with priority given to businesses located outside major centres.

In 1984-85 the Company expects to make $38 million in loan commitments to small Alberta businesses. To finance this lending activity, the Legislature will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $45 million in debentures of the Company.

The Company will also receive a budgetary appropriation of $10.6 million through Alberta Tourism and Small Business in 1984-85. These funds will enable the Company to deliver its lending programs at less than their actual cost.

ALBERTA OPPORTUNITY COMPANY
(thousands of dollars)

Table C5

	1984-85 Estimate	1983-84 Forecast
Programs		
Direct Lending	38,000	28,000
Loan Guarantees	2,000	2,000
Financing		
Cash Required For:		
Direct lending	38,600	28,000
Debenture repayments	36,100	35,000
Total Cash Requirements	74,700	63,000
Sources of Financing:		
Loan repayments	22,900	20,000
Operations	6,800	1,000
Debentures issued to the Heritage Fund	45,000	42,000
Total Sources	74,700	63,000

Charts

D1 Investment as a Percentage of GDP/GNP, Alberta and Canada 72
D2 Participation Rate, Alberta and Canada 73
D3 Employment/Population Ratio, Alberta and Canada 74
D4 Land Sales to the Alberta Oil and Gas Industry 75
D5 Manufacturing Shipments, Alberta 76

Alberta Economic Performance in 1983

Alberta's overall economic performance in 1983 continued to be affected adversely by national and international developments. Although the North American economy generally recovered from the 1981-82 recession, those external factors to which Alberta's economy is most sensitive did not improve sufficiently to support a return to overall economic growth.

High real interest rates had a particularly damaging impact in Alberta since investment is of key importance in developing the province's large resource base and capital intensive manufacturing industries.

At the international level, the fall in energy demand induced by the recession and increased conservation combined with growing available supplies to weaken energy prices. The most visible impact was on Alberta's gas markets which softened considerably, both in Canada and in the United States. Expectations of less rapid future energy price and demand increases also had an important, albeit less measurable, impact on exploration and development activities. In addition, the oil and gas industry continued to feel the negative effects of the National Energy Program.

The fall-off in investment expenditure was the major reason for the overall decline in economic activity. Alberta's Gross Domestic Product, the broadest measure of provincial economic performance, is estimated to have remained virtually unchanged in 1983. In constant dollars, after accounting for price increases, real output in Alberta declined in 1983.

Despite the difficult economic times which marked 1983, progress was made in consolidating and improving Alberta's economic base. The agriculture, forestry, manufacturing, petroleum refining and petrochemicals sectors performed relatively well and the financial situation of the corporate sector improved substantially by year end. This is especially evident in the oil and gas industry where higher cash flow and decreasing debt burdens will allow firms to take advantage of new opportunities to expand. The manufacturing sector has acquired very modern and efficient facilities in petrochemicals and refining which will allow Alberta to keep increasing its share of total Canadian production. The years of rapid expansion had led to labour shortages which had damaged the competitiveness of Alberta's wage structure. This situation was partly corrected in 1983. Alberta's industries are now leaner and ready to take advantage of improved international conditions and export market opportunities.

Investment

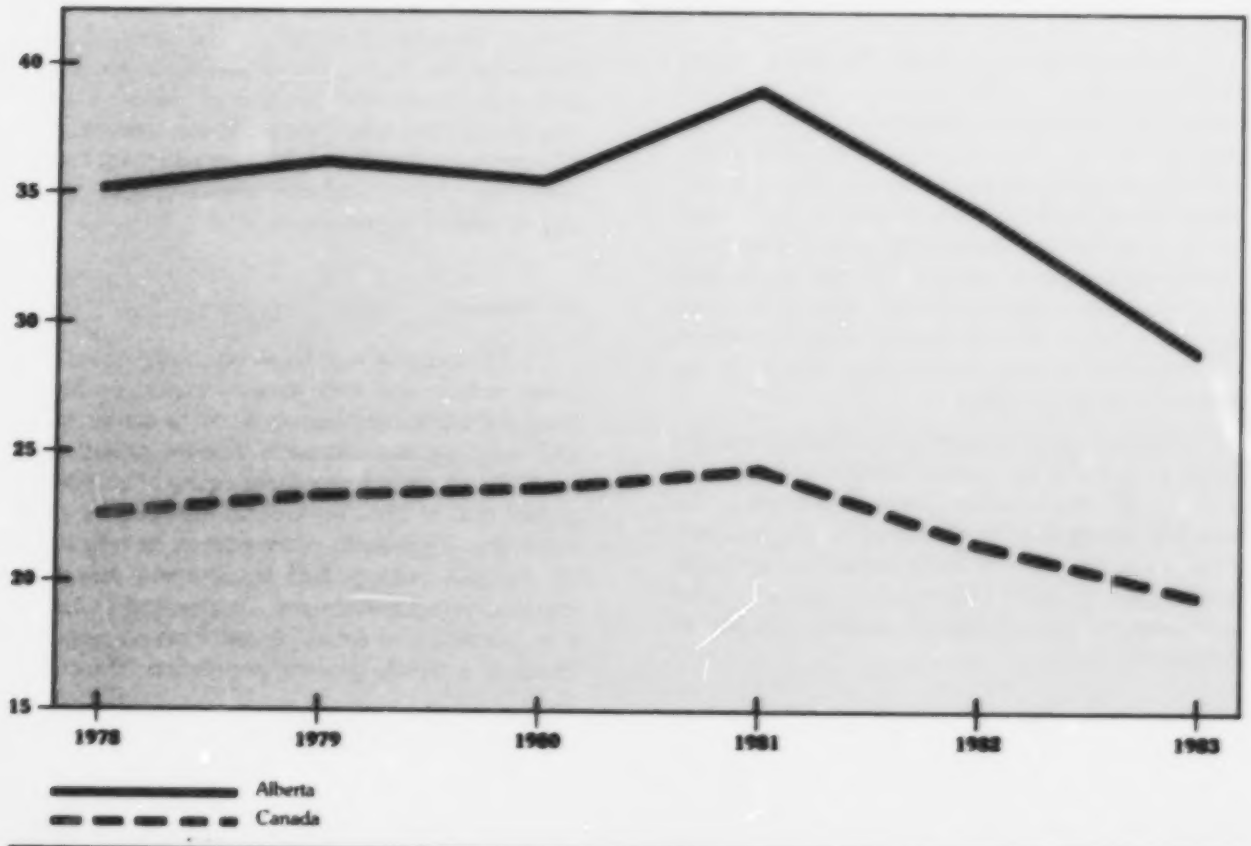
The external influences which depressed economic activity had their greatest impact on investment. Alberta's rapid expansion of the late seventies and early eighties had been investment led. Over the 1978-81 period, investment grew at an average annual rate of 25% in nominal terms and 15% in real terms. High levels of investment activity in the oil and gas industry had downstream effects on manufacturing investment, commercial construction, housing and social infrastructure to meet the needs of a rapidly growing population. The cumu-

lative effect was to boost the share of investment close to 40% of Gross Domestic Product by 1981.

Investment plans were revised downward when it became apparent that the expectations of future price increases on which much of the investment growth in the oil and gas sector had been predicated would not be realized. The same ripple effect that had been observed in the upswing occurred in the downswing. Investment started to fall in 1982. During 1983 current dollar investment is expected to have fallen 16% below its 1982 level. This would represent a 20% decline in real terms. Nonetheless, investment remained the major component of GDP, particularly relative to the structure of the economies of other provinces as shown in Chart D1.

INVESTMENT AS A PERCENTAGE OF GDP GNP, ALBERTA AND CANADA
(per cent)

Chart D1

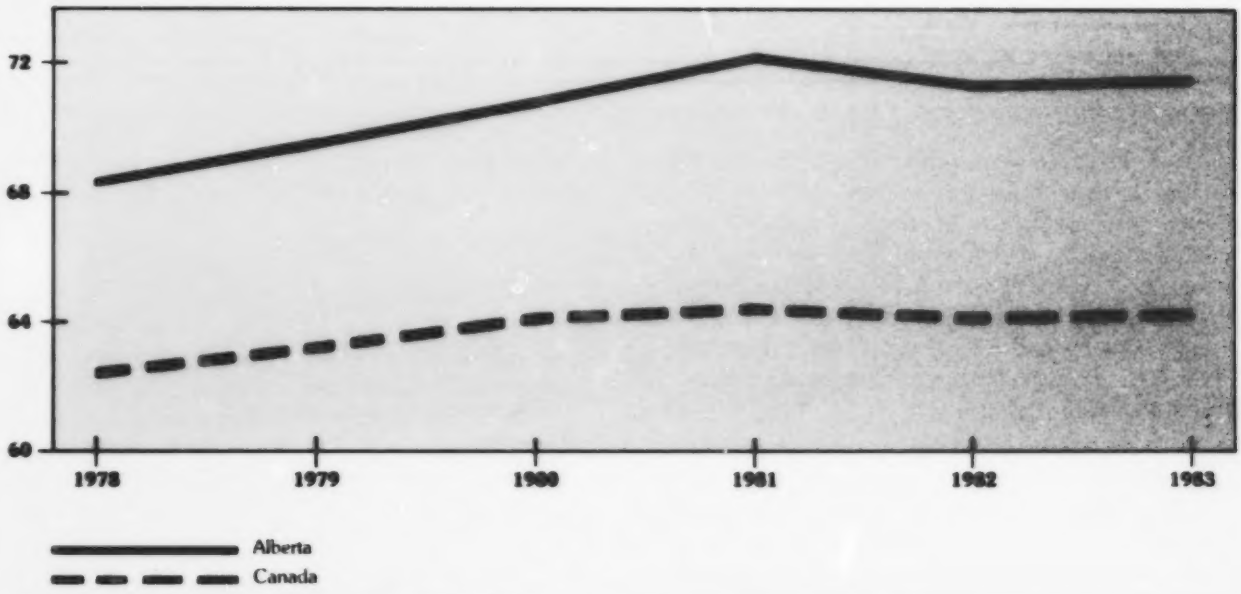


Labour Market

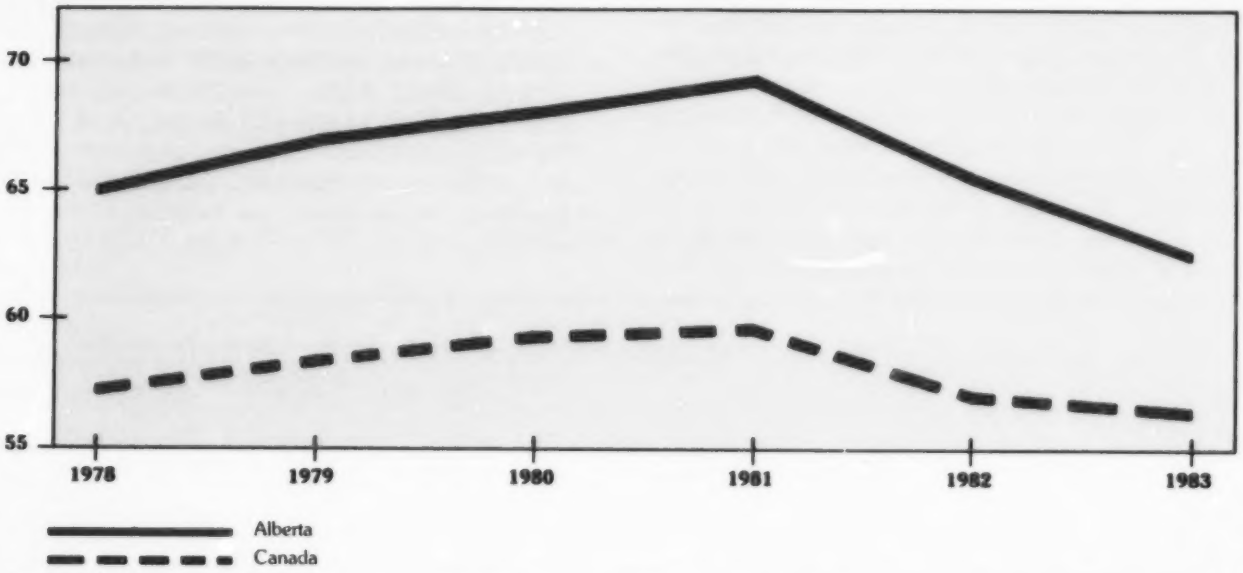
The labour market reflected the economy's overall performance and employment fell by 1.5% from 1,132,000 in 1982 to 1,115,000 in 1983. The unemployment rate rose from 7.9% to 10.7%. The relatively high rate of unemployment is explained by Alberta's high participation rate and by changes in the employment population ratio. The years of high growth were characterized by very tight labour markets. Shortages of labour were alleviated by large inflows of job seekers from other provinces and from abroad, and by an increasing proportion of Albertans joining the ranks of the labour force.

The proportion of the population 15 years of age and over in the labour force (the participation rate) increased from 67.2% in 1977 to 72.3% in 1981. The proportion of the population 15 years of age and over which was employed (the employment/population ratio) rose during the same period from 64.1% to 69.5%. The economy was able to absorb the additions to the labour force at an amazing rate. Comparisons of Alberta's participation rate and employment/population ratio with the corresponding national figures are shown in Charts D2 and D3.

PARTICIPATION RATE, ALBERTA AND CANADA
(per cent) **Chart D2**



EMPLOYMENT POPULATION RATIO, ALBERTA AND CANADA
(per cent) **Chart D3**



In 1983 the employment/population ratio fell by over 5 percentage points from its 1981 high. Despite this fall in labour demand, participation rates remained more or less constant. The unemployment rate rose to 10.7% as a result. Nonetheless, the proportion of the working age population which was employed remained the highest of all the provinces, an indication that Alberta's labour market retained its fundamental strength.

Wage increases moderated markedly in 1983. The monthly year-over-year increase in average weekly earnings, which stood at over 10% at the start of the year, had fallen to 5.6% by December, 1983. Wages increased at a slower pace than the Canadian average during the latter part of the year reflecting the delayed impact of the downturn, wage concessions in certain sectors such as the construction industry and government policy initiatives.

Oil and Natural Gas

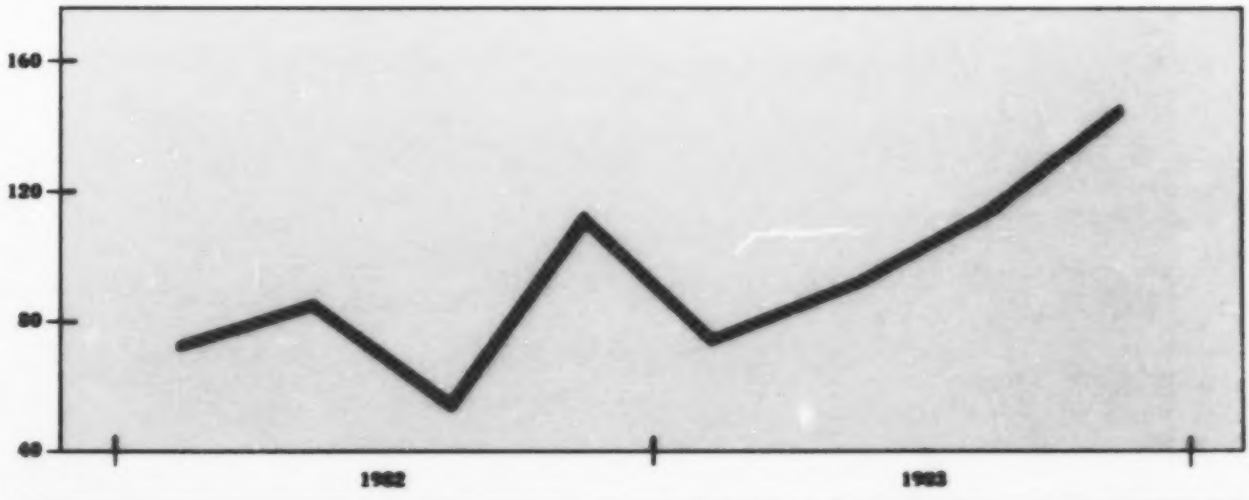
The last two years have been difficult ones for Alberta's oil and gas industry. The outlook for world oil prices and natural gas surpluses in the United States reduced investment by the industry. At the same time, the federal National Energy Program diverted a large share of limited exploration budgets away from Alberta into the frontier regions off the east coast and in the arctic. Despite these setbacks, the oil and gas industry remains a key source of Alberta's current and future economic strength.

The value of crude oil production rose by 28% in 1983 from $10,531 million to $13,464 million. The improved performance of the Suncor and Syncrude synthetic crude oil facilities increased crude oil production, and the widened application of the New Oil Reference Price boosted average wellhead prices.

The value of natural gas sales dropped slightly, however, from $6,189 million to $6,152 million. Domestic consumption of natural gas fell in 1983 because of the severity of the economic downturn, energy conservation measures, the mild winter and competition from alternate fuels. Reduced exports of natural gas to the United States resulted from similar factors and from increased indigenous supply.

Conventional exploration and development expenditure fell by 24% in 1983 from $3,810 million to $2,900 million. Weak natural gas markets, cash flow constraints and weak financial positions, especially severe for companies with high indebtedness and shut-in gas, persuaded oil and gas companies to tighten their exploration budgets. Companies have, nonetheless, vigorously pursued development opportunities promising early cash flow. Modifications to the tax and royalty regime have stepped up the pace of enhanced recovery as well as in situ oil sands and heavy oil projects. Capital expenditure on oil sands facilities rose by 30% in 1983, from $386 million to $500 million. Early signs, including heightened seismic exploration and land sales, point to an improvement in exploration activity in 1984 as shown in Chart D4.

LAND SALES TO THE ALBERTA OIL AND GAS INDUSTRY
(quarterly – millions of dollars) **Chart D4**



Agriculture, Forestry and Coal

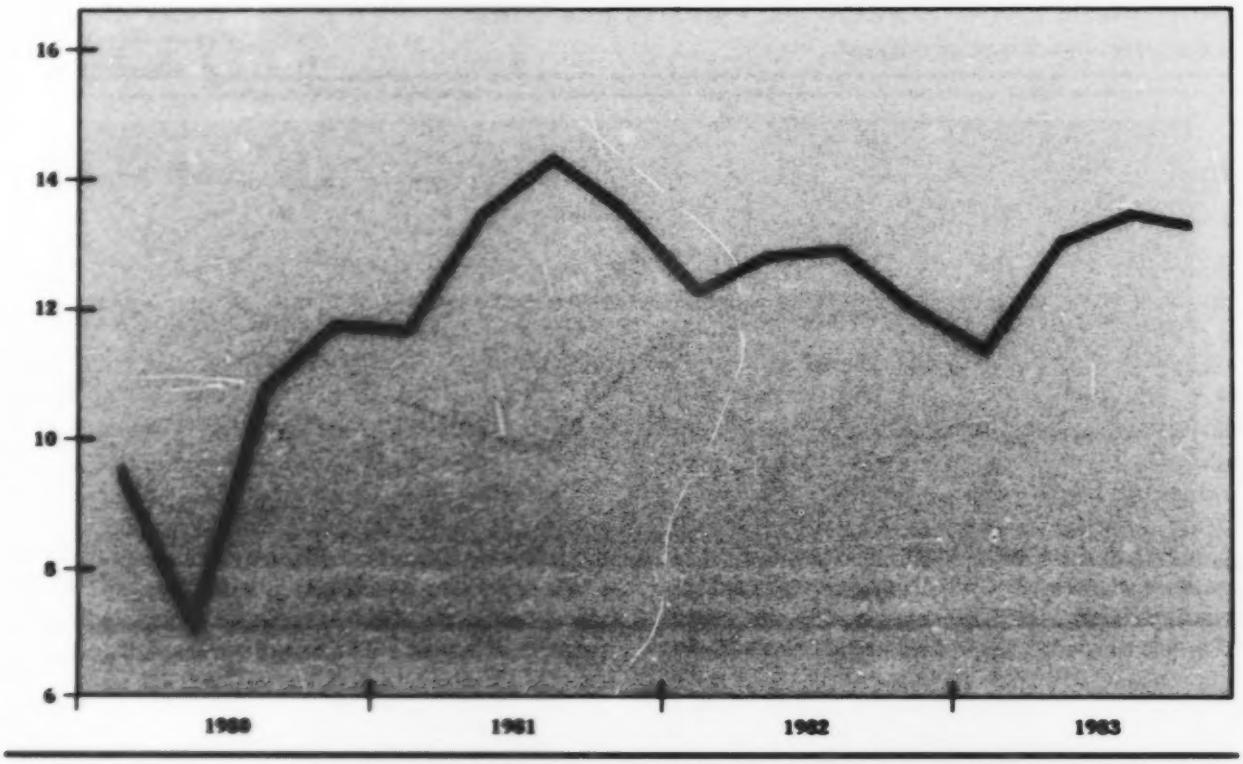
Farmers harvested a record wheat crop of 6.8 million tonnes and total production of the other principal grains and oilseeds was 7.7 million tonnes. Grain prices exhibited weakness during the first half of the year but later trended upward. The decline in hog prices largely accounted for a fall in livestock cash receipts. Overall, total farm cash receipts were slightly lower than in 1982.

Turning to other resource-based industries, forestry had a record year. The value of sawn lumber and plywood increased by close to 60%. Pulp mills were operating at close to full capacity by year end. Total marketable coal production firmed during 1983.

Manufacturing and Processing

Manufacturing and processing expanded during 1983. Manufacturing and processing shipments regained the ground lost in 1982 with value rising by 2.3% to about $12.8 billion as shown in Chart D5. One of Alberta's major industries, the petroleum refinery industry, showed strong growth of over 10% to $3.6 billion in the value of shipments. By year-

MANUFACTURING SHIPMENTS, ALBERTA
(quarterly at annual rates – billions of dollars) **Chart D5**



end, the value of shipments of refined petroleum products was at a record high. Alberta's two other major processing industries are food and beverages and chemicals and chemical products. The value of shipments of food and beverages rose marginally after having remained roughly constant in 1982, while shipments of the petrochemical industry regained the lost ground in 1982 despite continued weak prices. Employment in manufacturing and processing registered strong growth in the course of the year.

Construction

Construction and investment related activities were weak spots in a year of correction and absorption of overbuilt sectors. Residential construction adjusted to an environment of lower population growth as total housing starts numbered 17,100. Still, those Alberta housing starts represented 10.5% of total Canadian starts, a share slightly higher than the province's population share. Before the downturn, developers of commercial and industrial facilities had initiated projects based on projections of growth in demand which only partly materialized. As a result, this sector became overbuilt and activity dropped during the year. Lower exploration and development expenditure in the oil and gas industry and the completion of some major projects in the petrochemical industry further lowered levels of construction activity.

Services

Alberta's service producing industry, which accounts for over 50% of Gross Domestic Product, held up remarkably well during 1983. Average employment in the community, business and personal service industry grew by 20,000 or 6%, while employment in transportation and utilities, trade and public administration remained essentially constant. The only sector where employment fell was finance and real estate. Although some pockets of weakness developed in the latter part of the year, service producing industries remained the province's most important employers; in December 1983, they employed 789,000 persons, or 72% of the total number of jobs in Alberta.

Appendix E

Alberta in Canada: Strength in Diversity

The complete version of "Alberta in Canada: Strength in Diversity" can be obtained by writing:

Alberta Federal and
Intergovernmental Affairs
14th Floor, 10030 - 107 Street, South Tower
Edmonton, Alberta
T5J 3E4

Alberta in Canada: Strength in Diversity

Foreword

In today's uncertain economic climate the long-term prospects for Canada are occupying the thoughts of Albertans and other Canadians. While no one can predict the future with certainty, Canadians are making an effort to identify national goals and are searching for the best means of realizing them. Fundamental questions face us. What type of economic system is most suitable to Canadian economic development? How can Canadians effectively realize Canada's full economic potential? What should be Canada's economic goals and objectives? What are the impediments to growth? What is the role of governments in the attainment of our goals and objectives? How can the economic actions of the federal and provincial governments be better coordinated in order to achieve the desired goals? What role do individual provinces have in developing economic strategies for Canada? If Canada is to realize its future economic potential, these questions must be addressed.

Many of the issues and perspectives presented in "*Alberta in Canada: Strength in Diversity*" have been recurrent themes of the Alberta government over the past decade. This discussion paper reinforces and augments previous positions and integrates them into a framework for making necessary changes to the federal system and enhancing Canada's future economic prospects.

The purpose of this document is to encourage a public dialogue on issues affecting the future economic prospects of this province and Canada as a whole. "*Alberta in Canada: Strength in Diversity*" explores the conditions which must be satisfied if the future economic and social well-being of Canadians is to be assured.

Peter Lougheed
Premier of Alberta
October 27, 1983

Highlights

Alberta has vast potential and significant opportunities. Its natural strengths are considerable: rich farmland, vast energy resources, large tracts of forests, abundant water supplies, a varied and scenic countryside, thriving urban centres, and a creative, highly educated, and industrious populace. However, as a land-locked province with a relatively small population base, Alberta has faced some difficult problems in its efforts to build upon its natural strengths. To a considerable extent, these problems have been aggravated by federal trade, transportation, energy and economic development policies. The lack of capital available for investment within Alberta, and the reluctance of Canadian banks and investors to invest in Alberta, resulted in the need to attract foreign capital. This was particularly true in the development of the petroleum industry prior to the mid-seventies.

Historically, Alberta's prosperity has been dependent on international market forces for the sale of its key commodities — grain and, since 1947, crude oil and natural gas. Recognizing the need for some diversification and a more balanced pattern of economic growth in all regions of the province, the Government of Alberta, since 1972, has fostered an environment which has encouraged the private sector to build upon the province's strengths. A number of policy measures have been initiated which have provided the foundation for private sector initiatives and have reduced impediments to economic development. The basis for future development and growth has been laid.

Much of Alberta's current economic strength is dependent upon depleting natural resources. A unique challenge of the provincial government was to ensure that the income derived from the sale of these resources was equitably shared between present and future generations. In 1976, Alberta created the Alberta Heritage Savings Trust Fund to set aside a portion of resource revenues so that future generations of Albertans also could benefit from these resources. Its policy measures have included a "savings trust" philosophy, which has assisted in establishing an attractive investment climate and a mood of confidence regarding Alberta's economic opportunities.

Other policy measures and initiatives introduced by the Government of Alberta include:

- extensive trade promotion efforts both to assist Alberta industry in penetrating world markets, especially in the Pacific Rim, and to encourage investment in Alberta;
- support of research and development through such agencies as the Alberta Research Council, the Alberta Oil Sands Technology and Research Authority, the Food Processing Development Centre, and the Farming for the Future program;
- stimulation of the growth of a scientific and academic community through the Alberta Heritage Scholarship Fund and the Alberta Heritage Foundation for Medical Research Endowment Fund;
- investment in the transportation system, such as purchasing grain hopper cars and inland terminals, supporting the development of port facilities in Prince Rupert and Vancouver, and expanding road and airport facilities;
- investment in the improvement and expansion of the irrigation system;
- investment in enhancing and renewing the forestry resource;
- establishment of recreational areas; and
- expansion of available capital through the Alberta Opportunity Company, Alberta Agricultural Development Corporation, Alberta Home Mortgage Corporation, and Vencap Equities Limited.

The private sector has responded to this climate for investment. It was instrumental in developing a petrochemical industry in Alberta, expanding the production and processing of forestry and petroleum products, bolstering the food pro-

cessing industry, fostering a growing financial sector within the province, and enlarging the tourism sector. These successes provide a foundation upon which Albertans can build for the future. In order to realize fully our potential, however, greater efforts must be made to upgrade our resources within the province and to strengthen and expand our markets.

Overview

The purpose of "*Alberta in Canada: Strength in Diversity*" is to share with Albertans, and indeed with all Canadians, the views of the Alberta government on issues related to Canada's and Alberta's future economic prospects and the full realization of the province's and the country's tremendous economic potential.

- Several themes are developed throughout the paper:
  - because Canada is dependent on foreign markets, Canadians must take measures to meet the challenges of a world in which these markets are increasingly difficult to penetrate and maintain;
  - the private sector is the driving force of economic growth;
  - through increased productivity and economic growth, the economic and social well-being of Canadians can be improved;
  - governments have an important role to play in creating a positive climate for private sector initiative;
  - Canada's economic potential lies in recognizing and building upon the strengths of its provinces and regions; and
  - governments in Canada must renew their commitment to intergovernmental cooperation and consultation.

The Market Economy and Government-Private Sector Relations

- The private sector is the driving force of the Canadian economy. Only with a dynamic private sector can Canada achieve its economic and social goals.
- The size of government relative to the economy may have reached a level where it is incompatible with a dynamic private enterprise system. The governments' share of the Gross National Expenditure has doubled in the past 30 years. The Government of Alberta does not believe the government share of expenditure can be increased further. Canadians, therefore, must establish priorities for the services to be provided in the future by governments.
- An important issue to be addressed by Canadians is the appropriate degree of direct government involvement in the economy through Crown corporations, economic regulations, grants and subsidies.
- Direct government intervention in the economy through such federal policies as the National Energy Program and the Foreign Investment Review Agency have been imposed at a substantial cost to the Canadian economy. Such interventions must be corrected and not be repeated.
- Canada must re-assert its commitment to the market system and adopt policies which will improve its performance. Policies should not interfere with rewards to hard-working individuals and risk-takers and should encourage savings and investment. Profits — the reward for risk-taking and job-creating activities — must be recognized as a sign of economic vitality and growth.
- The basic role of governments in Canada should be to provide a stable environment which builds the confidence of the private sector and, therefore, allows economic benefits to be created in the most effective manner. Governments also have the responsibility to provide services which

the private sector would not otherwise provide and to reduce disparities between regions and individuals.

- Social needs of Canadians cannot be met unless the economy is strong and vibrant. Programs which are necessary to care for those who are unable to provide for themselves are an accepted responsibility of governments. The operating costs of social programs cannot be met by borrowing on future generations, but only by appropriate revenue-raising measures which can be borne by a strong economy where profits and incomes are sufficient to bear these social costs.
- In fulfilling their economic responsibilities, governments must reduce the regulatory burden on the lives of citizens and the economy.
- In order to foster economic growth, government fiscal and economic policies must be stable, well-understood and, to the greatest extent possible, formulated in consultation with the private sector.
- Elimination of large, recurring government deficits should be an important goal of governments to prevent a resurgence of inflation and allow lower interest rates.
- Governments must work toward reducing artificial trade barriers within Canada.
- Governments should ensure that public sector wages follow, not lead, private sector wages.
- Governments also have a role in facilitating better relations between business and labour.

Intergovernmental Economic and Fiscal Relations

- Canada's vast size and its inherent social, cultural and economic diversity necessitates a federal system of government. Canada could not exist as a unitary state controlled by a single government remote from the people. The Alberta government believes strongly in the Canadian federal system, that there is strength in diversity, and that harmony in diversity can be achieved.
- Both orders of government should participate in the formulation of Canadian economic and fiscal goals and objectives.
- The high degree of interdependence between the federal and provincial governments in important economic and fiscal policy areas requires frequent intergovernmental consultation and cooperation.
- Intergovernmental relations must be understood and managed in ways which contribute to a stable and predictable environment. Some differences of opinion are inevitable in a federal system; indeed, such diversity can be a creative and dynamic force. However, excessive or unnecessary intergovernmental tensions reduce the effectiveness of the policies of both orders of government and serve to create uncertainty.
- A renewed commitment by all governments to cooperative federalism is necessary. In recent years, unilateral federal action has replaced joint planning; federal intrusion into areas of provincial constitutional responsibility has replaced federal-provincial coordinated activities.
- The 1976 federal-provincial negotiations on fiscal arrangements, concluding in a new funding arrangement for the major social programs of hospital care, medical care and post-secondary education, were a hallmark of the spirit of cooperative federalism. The federal government's recent unilateral modifications of these cost-shared programs have jeopardized their future effectiveness and, indeed, is threatening the unity of the country. The federal government is demanding greater involvement in program delivery while reducing its financial obligations to the jointly funded programs.

- The Alberta government proposes four principles as the basis for a renewed era of cooperative federalism. These are:
  - provincial economic diversity should be acknowledged as a source of strength in the Canadian economy;
  - both orders of government should have an appropriate share of revenues to carry out their constitutional responsibilities;
  - the constitutional responsibilities of each order of government should be understood and respected; and
  - coordination among governments should be increased where constitutional responsibilities are shared or where one government's actions are likely to have a significant impact on another.
- The Government of Alberta suggests a number of specific measures to improve the operation of Canada's federal system. These include:
  - a constitutional requirement that a First Ministers' Conference be held annually at a fixed time to ensure consultation and cooperation in the development of Canadian economic, fiscal and social strategies;
  - reforming the Upper House to ensure a greater degree of sensitivity to provincial and regional objectives, interests and concerns;
  - provincial participation in the composition of those Courts which have a responsibility to interpret the Constitution. In particular, provinces should have a role in the selection and appointment of members of the Supreme Court of Canada to ensure the composition of the Court reflects the federal nature of Canada;
  - limiting the use of the federal spending power in areas of provincial responsibility. In cases where the use of the spending power may be required to achieve important national goals, such as the alleviation of regional disparities, prior consultation and joint planning with the provinces are essential;
  - increasing the provincial share of joint federal-provincial tax revenues, so that the provinces have access to sufficient revenues to provide the major social programs — such as health care and education — within their constitutional responsibilities; and
  - providing for provincial participation on federal economic boards and agencies, such as the National Energy Board, Canadian Wheat Board and Canadian Transport Commission, in order to ensure their sensitivity to provincial and regional needs and interests.

Building for the Future:
Prospects and Prescriptions

- Canada is a trading nation. International trade is a critical component of Canada's economic activity. To enhance our international competitiveness, Canada must develop trade policies which will enable us to recapture and expand our share of international markets. The federal government, provincial governments and the private sector must work in a full partnership in the development of our national trade policy.
- Canada's trade policy must be founded on a movement toward freer trade. Protectionist trade policies initiated by Canada or our trading partners must be resisted.
- Canada must develop new structures, new approaches and new strategies in international marketing as part of its overall trade policy.
- The competitiveness of Canada's products is hindered by the lack of economies of scale, given the nation's small population, and vast distances to major markets. Governments, therefore, have

a special role to serve as catalysts in the development and implementation of new marketing strategies.

- The achievement of Alberta's economic potential will benefit Canada as a whole. The Syncrude project, for example, provided extensive manufacturing opportunities for Canadian suppliers outside Alberta.
- The Government of Alberta is sensitive to the dangers of depending on certain major commodities for economic prosperity and recognizes the need for some economic diversification, primarily through upgrading or processing resources and products within the province.
- While Alberta's grain and livestock sectors have left the province less vulnerable to extreme boom and bust phenomena experienced by more wheat dependent economies, further strengthening of the agricultural processing sector is required.
- Provincial ownership of natural resources has provided, and will continue to provide, Alberta with further opportunities to diversify its economy.
- Alberta's greatest strength is its people. Changes in employment patterns reflect the growing importance of the role women play in the economy. All Albertans must be given the opportunity to participate in our economic development.
- Alberta is proud of its role as Gateway to the North, and is supportive of the efforts of the peoples of Yukon and Northwest Territories to develop and expand their economies. As dynamic parts of our evolving nation, Yukon and Northwest Territories should be supported in their quest for self-government.
- The basis of Alberta's economic strategy is to:
  - build upon economic strengths, both human and natural, including a high level of technical skills, low cost agricultural production, and vast reserves of available resources, such as natural gas and oil sands;
  - strengthen and expand the markets where Alberta products are and can be sold;
  - upgrade the degree of processing of Alberta's primary products;
  - continue to foster new areas of economic activity based on Alberta's strengths and competitiveness; and
  - promote economic growth in all parts of Alberta.
- To realize Canada's future potential, the following will be required:
  - Government economic policies must create an environment which encourages industries to adapt rapidly to world economic trends and developments.
  - Governments must foster an environment conducive to investment. Development of Canada's economic potential will require investment capital from both domestic and international sources. Policies must be implemented to encourage that investment.
  - Canada must strive constantly to improve productivity and maintain the world market competitiveness of its products. The development of corporate export consortia, capable of competing with international firms, must be encouraged to ensure world markets are penetrated and maintained.
  - Access to both the Canadian and international markets must be enhanced. The federal government and provincial governments must reject policies which distort the market economy and artificially create trade barriers. They should continue to press for greater access to international markets for our products by

working toward the reduction and elimination of trade distorting tariff and non-tariff barriers, as well as by increasing direct overseas contacts.

- Increased trade promotion efforts must be made. Expanded export marketing activities and adequate export financing capabilities are integral to the expansion and development of markets for Canadian goods.
- Provincial participation in international trade discussions should be expanded. International trade policies can have direct consequences for provincial economic policies. It is important that provinces be involved in those international multilateral/bilateral discussions which are likely to have an impact on specific provinces or industrial sectors.
- Canada must develop realistic national energy pricing policies. All Canadians will benefit if natural resources are priced to reflect market realities and if the profits attributable to risk-taking are not overburdened, as they are now, with ill-conceived federal taxes. The federal government should not tax resources but should restrict its taxation to the profits derived from the development of the resources.
- Improvements to the national transportation system must be made. An efficient transportation system is vital to Canada's international trade efforts.
- Governments must encourage technological innovation. While the private sector should take the lead in applied research and product innovation, governments play an important role in encouraging research and development and the adoption of the new technologies necessary to maintain competitiveness. Governments have a responsibility to ensure that publicly funded research findings are shared with private industry.
- Efforts must be made to improve the capability of our young people to compete in the dynamic world market place of the next decade. The rapid technological developments in the world economy will require many individuals to change jobs within their working careers. All men and women must be given the opportunity through educational facilities and job retraining programs to acquire new technical skills to meet the changing needs of the market place.
- Canada's Native peoples must be provided with economic opportunities. The aboriginal peoples must be assured of the opportunity to participate fully in the economy. In Alberta, the Native Venture Capital Corporation and the Business Assistance for Native Albertans Corporation will assist in this regard.
- The tourism and recreation industry must be expanded. Alberta has an enviable endowment of natural beauty which has formed the basis for one of the province's major industries: tourism and recreation. Policies must be implemented to maintain our competitive advantage in this area. Hosting major international events such as the XI Commonwealth Games (1978), the XII World University Games (1983) and the World Scout Jamboree (1983) enhances international recognition of Alberta. The hosting of the 1988 Winter Olympic Games will further the realization of Alberta's tourism and recreational potential. Alberta benefits from international cultural events held in the province. Heritage Days is an important annual cultural event which not only serves to bring Albertans closer together, but serves to make our international visitors more aware of the province and its dynamic qualities.

- Governments, federal and provincial, must be sensitive to the important role and special needs of small business, and create an atmosphere where the entrepreneur can be successful.

Conclusion

- The private sector is the driving force of the economy. Governments play an important role in providing a positive climate for private sector investment and initiative.
- Canada's future will depend to a significant degree on our ability to meet the challenges of an increasingly competitive world and to strengthen and expand our international markets. Working in a full partnership, both orders of government and the private sector must develop new marketing strategies for Canada.
- Canada's economic and social strength stems from the diversity of its provinces and regions and the talents of its people.
- Alberta's human and natural economic strengths are considerable. Building upon these strengths, Alberta contributes significantly to Canada's economic well-being. With appropriate economic, fiscal and trade policies, the province can make an even greater contribution to Canada's future.

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Health Care Financing in Alberta

There are two major categories of health care services in Alberta:

Services Provided by Health Care Professionals

- Visits to doctors' offices
- Doctors' services to patients in hospitals
- Lab work and X-rays
- Visits to chiropractors, optometrists and podiatrists
- Physiotherapy
- Oral surgery

Alberta provides the most extensive range of insured health care services in Canada.

Hospital Services

- Care in general and auxiliary hospitals
- Care in nursing homes
- Drugs and medical supplies needed by patients in hospitals
- Care in psychiatric facilities

Other health care services funded by the Alberta government include: extended health benefits for senior citizens and their dependants (dental care and repairs to dentures, eyeglasses, hearing aids, surgical supplies and appliances, and medical equipment), community public health services, occupational health services, air ambulance services, and alcohol and drug dependency treatment.

Health Care Crisis

Alberta, like other provinces, is having increasing difficulty in paying for higher health care costs. There are two major components to the budgetary problem. First, there have been dramatic increases in health care costs. Albertans are actually making increased demands on health care services. In 1982-83 the use of physician services under the Alberta Health Care Insurance Plan increased by almost 10% per person while the number of people registered with the plan increased by 1.7%. In addition, technological advances, which have greatly improved the quality of health care, have also contributed to cost increases.

Second, provincial revenue growth has slowed considerably with the economic downturn and the softening of world energy prices. Aggravating the situation is the federal government's decision to reduce its health care funding even though costs are increasing.

Health Care Expenditure

On average, hospital operating costs for a one-day stay are over $300. But some hospital costs are a good deal higher, particularly in specialized facilities. For example, it costs about $1,040 for one day in an intensive care unit in a major teaching hospital. Enhanced services have resulted in an increase in per bed construction costs for general hospitals from $104,000 in 1979-80 to over $160,000 in 1982-83. Per bed construction costs for auxiliary care hospitals are estimated to exceed $106,000 in 1983-84.

Since 1979-80 the benefit rate for physician services covered under the Health Care Insurance Plan has increased at an average annual rate of over 12%. For 1984 physicians and other health care professionals have agreed to accept a freeze in the benefit schedule.

This year it will cost an estimated $2.8 billion to provide health care services to Albertans. Fifty per cent ($1.4 billion) will finance the operation of hospitals and nursing homes. Another 24% ($661 million) will pay for the services of doctors and other health care professionals. Sixteen per cent ($458 million) will be used to upgrade and renovate older facilities and build new hospitals. The balance will be spent on community, environmental and other health programs (see Chart F1).

Total health care spending in 1983-84 is nearly two and one half times the level of 1979-80, an average annual growth rate of 24.4% (see Chart F2).

Alberta's expenditures support a comprehensive range of health care services unmatched in Canada. Alberta spent over $1,000 per capita on health in 1982-83. This is the highest of any province and an estimated 17% above the national average.

Sources of Funding for Health Care

Financing for health care in Alberta in 1983-84 came from the following sources (see Chart F3):

- 76% – General provincial revenues such as taxes and resource royalties.
- 14% – Federal cash transfers to Alberta.
- 7% – Health care insurance premiums.
- 3% – Alberta Heritage Savings Trust Fund.

Revenue from personal income taxes in 1983-84 is estimated at $1.5 billion. This is equivalent to only 54% of the total health care bill.

The federal government's funding of health care has declined dramatically (see Chart F4). In 1977-78 federal cash contributions covered 26% of health care expenditure in Alberta. By 1983-84 the federal share had fallen to 14%. In 1982-83, for example, Alberta's health care costs jumped by 31% while federal cash contributions actually decreased by 7%. Even if the tax room transferred to the province back in 1977 were included, the share of federal funding has declined from 50% in 1977-78 to 32% in 1983-84.

The proposed Canada Health Act may further reduce federal funding for health care by imposing financial penalties against those provinces which allow user charges and physician extra billing. The federal government could use these penalties to deny Alberta a significant amount of funding in 1984-85, raising further the cost borne by the province.

The Heritage Fund has financed major health research programs and the construction of some specialized hospitals. But if the Fund were used to cover day-to-day health care costs, it would be exhausted in a few years. Then, the government would still be facing the same problem. At some point, we must come to terms with paying for our health care system.

Health Care Premiums

It has been the government's long-standing view that Albertans should pay directly a portion of the costs of the Health Care Insurance Plan. The premium system increases citizens' awareness of health costs and underscores the crucial need to reduce cost increases.

Many Albertans, including senior citizens, low income groups and those on social assistance, are not required to pay any premiums for their health insurance coverage.

Premiums make no contribution to hospital costs and pay only part of the costs of the Alberta Health Care Insurance Plan. Even for the Insurance Plan, which pays for doctors' and other health care professionals' services, premiums have not kept pace with costs. In 1969 premiums accounted for 55% of the expenditure of the Health Care Insurance Plan; today they cover only 29% of costs.

Unfortunately, thousands of people who were fully able to pay premiums were not doing so. By mid 1983 the total amount of uncollected premiums had reached over $60 million. Recently the government moved to require those persons in arrears to pay premiums in order to receive benefits under the Health Care Insurance Plan. Almost all Albertans have now been issued a health care insurance card entitling them to health insurance benefits.

Alberta's health care insurance premiums are lower than those in other provinces which have premiums. It is also important to remember that provinces which do not have premiums rely on higher income and sales taxes to finance their health care systems. If medicare premiums were eliminated in Alberta, personal income tax revenue would need to increase by more than 11% to make up the loss. Right now, Albertans enjoy the lowest income and other tax rates in Canada.

Extra Billing

The Alberta Health Care Insurance Plan pays doctors for their services according to an agreed benefit schedule. But doctors in Alberta are not employees of the government and they have been able to decide whether to charge more than the Insurance Plan pays.

Only 5% of medical services are being extra billed by Alberta doctors and extra billing amounts to less than 3% of the fee-for-service expenditure for physician services. The number of doctors who are extra billing has dropped significantly in the last two years.

Hospital User Charges

Until recently, the province picked up deficits incurred by the hospital boards because the boards did not have access to significant revenue of their own. This approach was changed effective with the 1982-83 fiscal year because it afforded no control over provincial expenditure for hospital services and provided no incentive for hospitals to live within their budgets. User charges provide the means for hospitals to make up cost over-runs. User charges are also intended to ensure that users of Alberta's hospital system are aware of the costs.

Hospitals in Alberta have the option to implement a user charge program in their facilities. This is not a provincial government charge but it is permitted by provincial legislation. As of March 1, 1984, no hospital has put in place the new user charges.

The legislated maximum daily user charge is $10 for an outpatient or emergency visit and $20 for inpatient care. The annual limit will be $150 for a single person and $300 for a family.

Over one-half million people, including senior citizens and children under seven, will be exempt from hospital user charges. Albertans with low incomes or those receiving social assistance will not have to pay any fees. Several important types of treatment such as cancer treatment will be free from user charges.

Future Course of Health Care

The Alberta government is determined to keep Alberta's health care standards at a high level. However, it is crucial that costs be controlled.

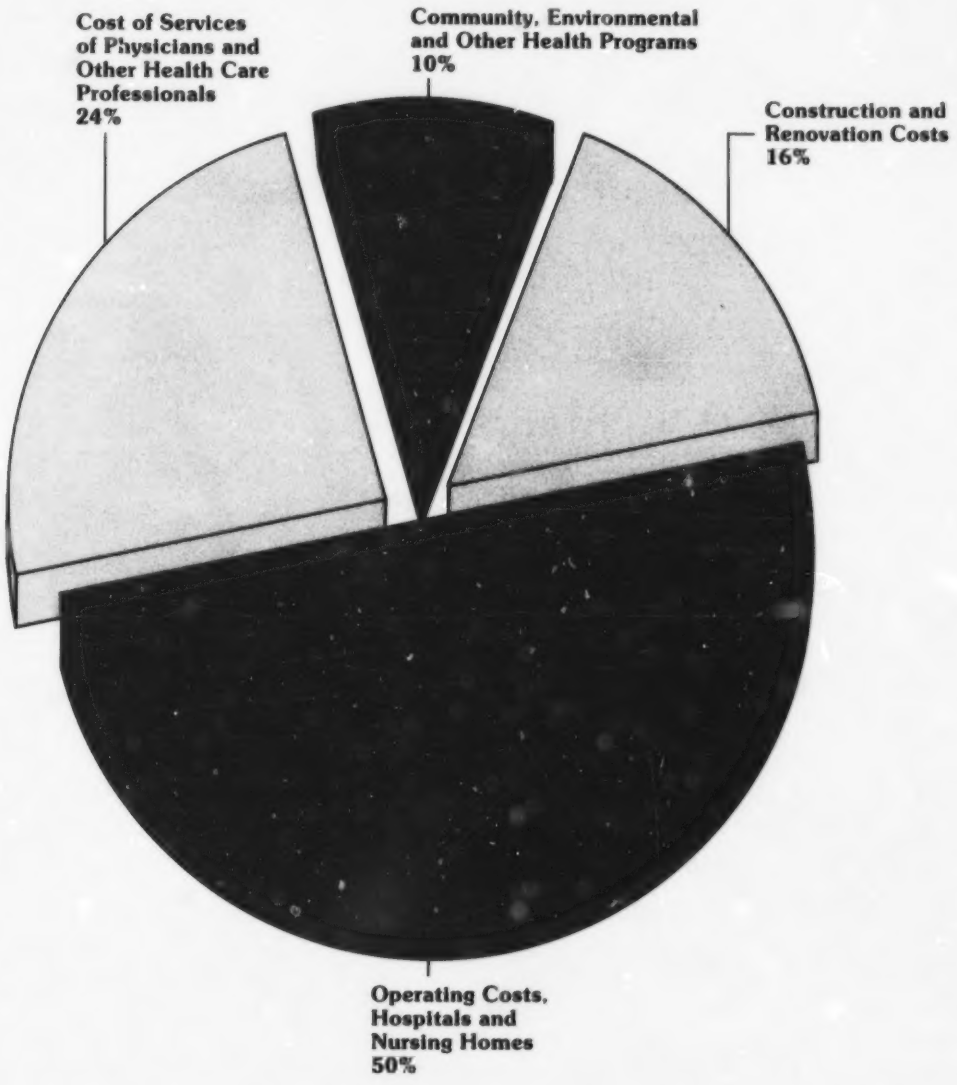
Public use of health services has increased and costs have escalated rapidly. Because of the economic downturn, growth in Alberta's revenue has levelled off. The share of federal support has decreased. Health care is a major, ongoing budgetary problem which must be resolved.

Alberta's wide-ranging health system assures that every Albertan will receive quality medical attention. Last year over 85% of all Albertans made use of the insured health care services at least once.

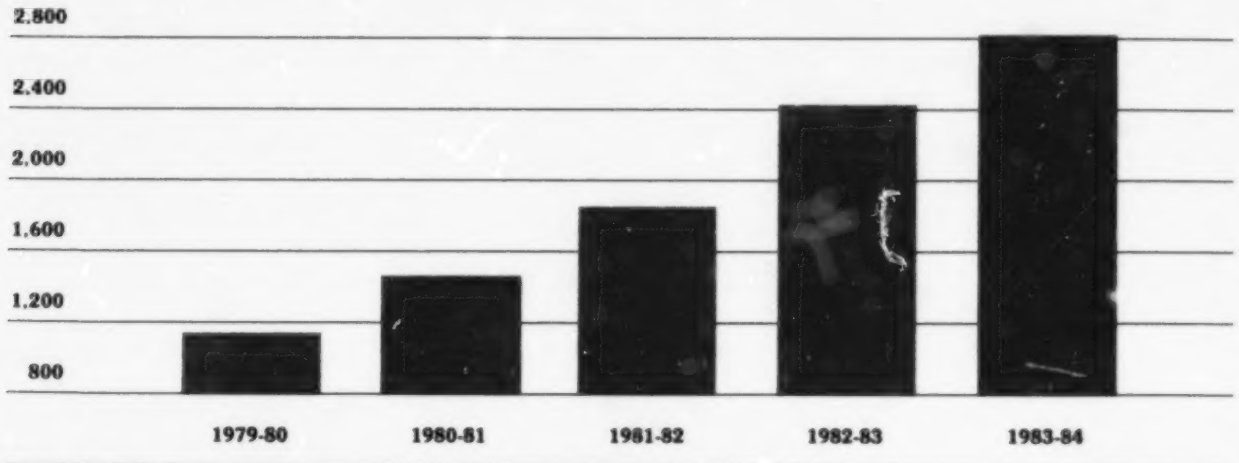
While continuing our efforts to keep health care costs under control, the Alberta government maintains its commitment to provide the best possible health care for Albertans.

COMPONENTS OF EXPENDITURE FOR ALBERTA'S HEALTH CARE SYSTEM, 1983-84

Chart F1

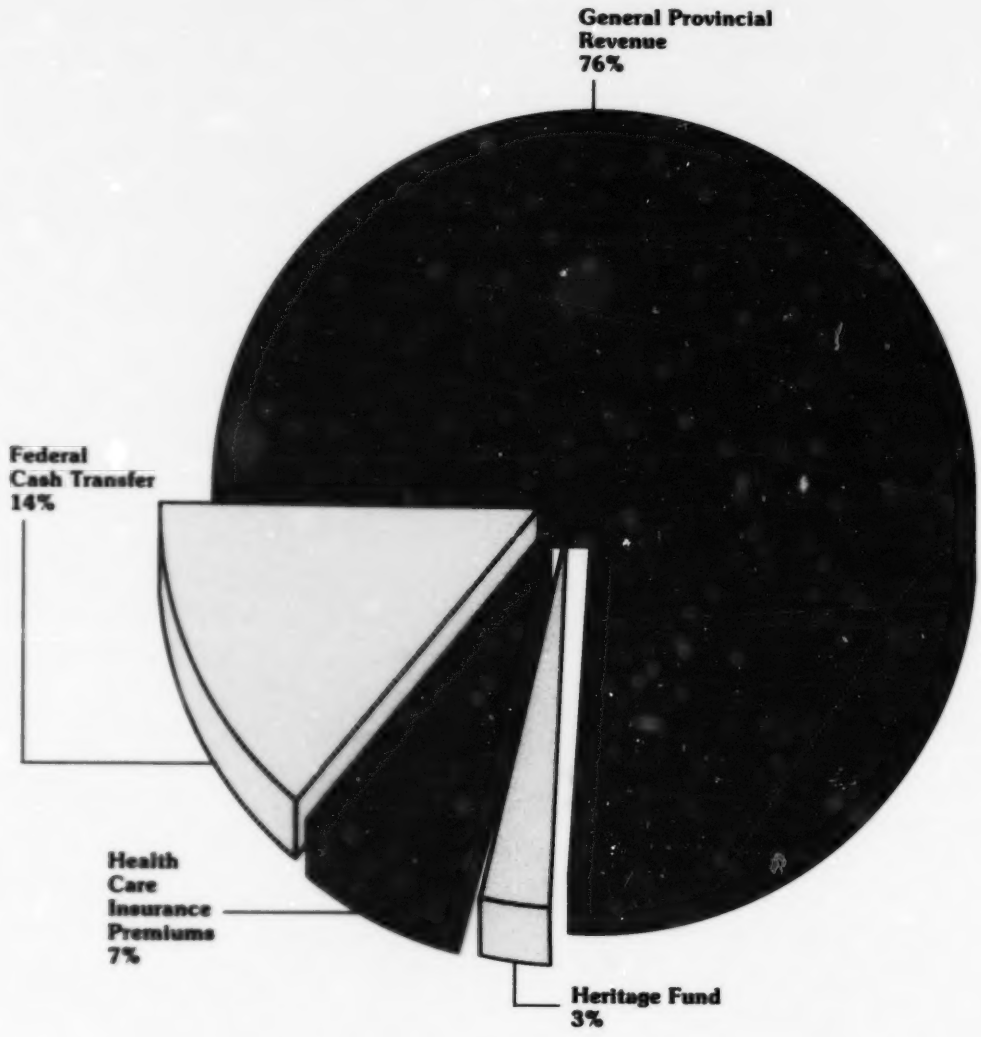

Cost of Services of Physicians and Other Health Care Professionals 24%
Community, Environmental and Other Health Programs 10%
Construction and Renovation Costs 16%
Operating Costs, Hospitals and Nursing Homes 50%

ALBERTA HEALTH CARE EXPENDITURE
(millions of dollars) **Chart F2**

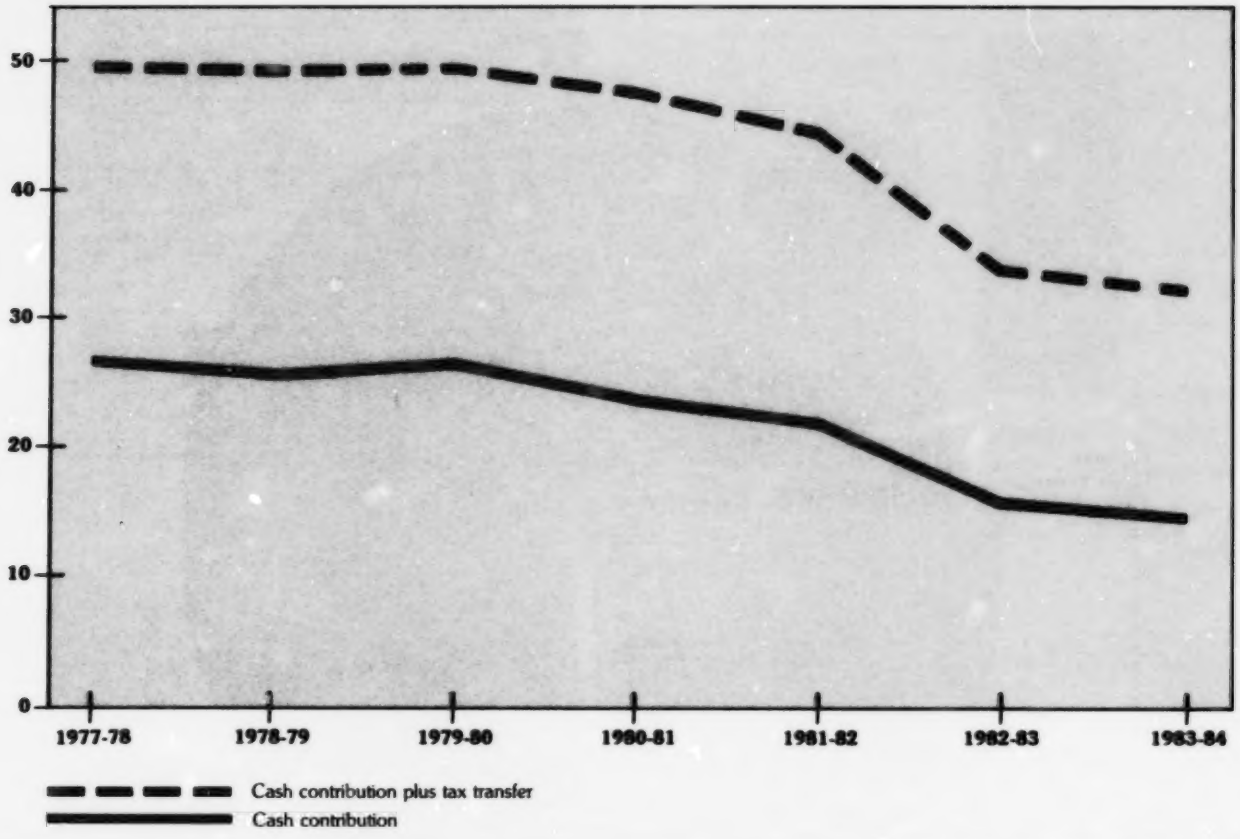


SOURCES OF FUNDING FOR ALBERTA'S HEALTH CARE SYSTEM, 1983-84

Chart F3



FEDERAL SHARE OF HEALTH CARE EXPENDITURE IN ALBERTA
(per cent) **Chart F4**



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Alberta's Tax Structure

Not only do Albertans enjoy the highest level of government services in Canada, they also benefit from the most favourable tax structure.

1. Alberta has a low level of taxation.
2. The combination of taxes is fairer to all taxpayers since Alberta relies very little on taxes levied directly on goods and services.
3. This very favourable tax structure has been made possible by revenue from depleting non-renewable resources. Even if Alberta were to make use of its substantial unused tax capacity, the resulting revenue would not be sufficient to replace non-renewable resource revenue.

Albertans enjoy the lowest provincial tax rates in Canada as can be seen from Table G1. Alberta's personal income tax rate of 43.5% of basic federal tax is the lowest of the provinces and contrasts with a rate of 50.4% (including surtax) in Ontario and 51% in Saskatchewan. The Alberta general corporate income tax rate is 17% below the average provincial general tax rate. Individuals and businesses benefit from the absence of sales and gasoline taxes. Other provinces levy retail sales taxes of between 5% and 12% and, except for Saskatchewan, gasoline taxes of about 20% or more of the price of gasoline. Businesses in Alberta are free of provincial capital and payroll taxes which are sizeable in some other provinces.

MAJOR PROVINCIAL TAX RATES[a] **Table G1**

	Personal Income Tax[b]					Health Care Premiums[e]		Corporate Income Tax[f]		
	Basic Rate	High Income Surtax	Retail Sales Tax	Gasoline Tax[c]	Tobacco Tax[d]	Individual	Family	Small Business Rate	General Rate	Capital Tax[g]
	(%)	(%)	(%)	(%)	(¢/cig)	($)	($)	(%)	(%)	(%)
British Columbia	47.5	10.0	7	20	2.00	192	408	8	16	0.2
Alberta	**43.5**	—	—	—	**1.48**	**168**	**336**	**5**	**11**	—
Saskatchewan	51.0	12.0	5	—	2.08	—	—	10	14	0.3
Manitoba	54.0	20.0	6	16	2.10	—	—	10	16	0.2
Ontario	50.4	—	7	20	2.59	340	680	0	14/15	0.3
Quebec	70-85	—	9	30	2.26	—	—	3	5.5/13	0.45
New Brunswick	58.0	—	10	20	2.96	—	—	9	14	—
Prince Edward Island	52.5	—	10	22	1.50	—	—	—	10	—
Nova Scotia	56.5	—	10	20	1.40	—	—	10	15	—
Newfoundland	60.0	—	12	22	4.78	—	—	12	16	—

[a] At March 16, 1984.

[b] Quebec's personal income tax rate expressed as a percentage of basic federal tax for middle income individuals is in the 70% to 85% range excluding tax points transferred from the federal to Quebec government. British Columbia's basic rate includes an 8% general surtax which commences July 1, 1984 while Ontario's basic rate includes a 5% general surtax on tax payable in excess of $110.80 in 1984. The high income surtax applies to provincial tax payable in excess of $3,500 in British Columbia, $4,000 in Saskatchewan and $2,640 in Manitoba.

[c] Manitoba tax is 7.5¢ litre which is about 16% ad valorem.

[d] Cigarette taxes are ad valorem in several provinces, but for comparison purposes have been expressed in cents per cigarette.

[e] The family rate shown for British Columbia is for families with three or more members. Quebec has a 3% payroll tax to finance its Health Services Fund, and Manitoba has a 1.5% Health and Post-Secondary Education Levy (payroll tax).

[f] Ontario announced a three-year tax holiday for small businesses for taxation years ending between May 13, 1982 and May 14, 1985. The 14% rate in Ontario applies to income which qualifies for the federal manufacturing and processing deduction, as well as income from mining, logging, farming, and fishing. Quebec's 5.5% rate applies to active business income only (interest income and passive rental income, for example, are not considered to be active business income).

[g] Rate noted is the general rate which applies to all corporations except financial institutions, which are subject to higher rates, and exempt corporations. Exempt corporations are generally those which are exempt from income tax.

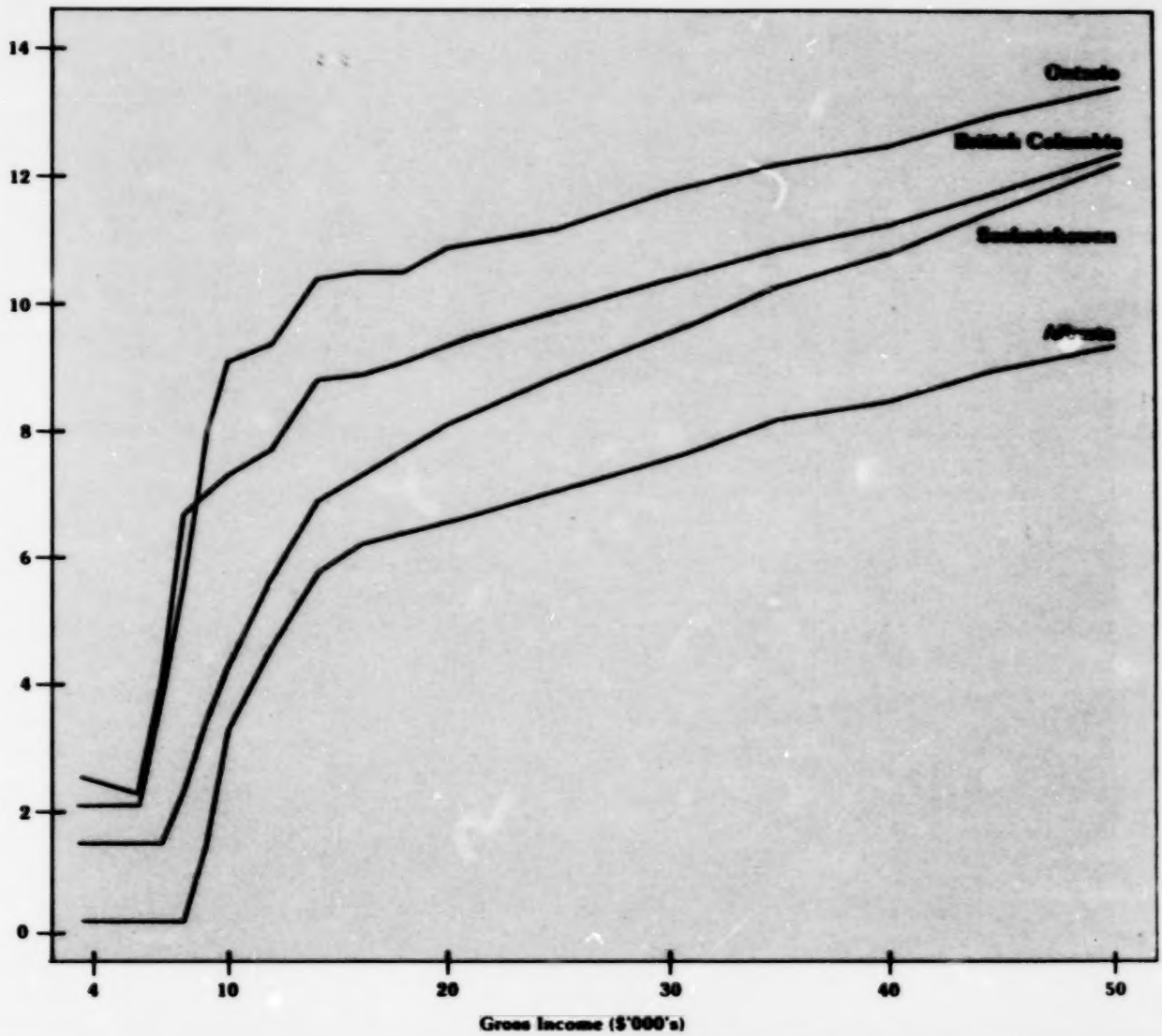
Not only is the level of total taxation relatively low in Alberta, but the reliance on income taxes as opposed to taxes levied directly on goods and services (for example, gasoline and sales taxes) means that the Alberta tax structure is fairer than the tax structure of other provinces in Canada. In Alberta, taxes on low income individuals are virtually non-existent while more is asked of those taxpayers with a greater ability to pay. Nonetheless, even at high income levels, Alberta residents pay lower provincial taxes than residents of other provinces. Charts G1 and G2 show the favoured tax position enjoyed by Albertans. The low level of taxation and absence of sales and gasoline taxes is of particular benefit to those who are unemployed during this period of economic adjustment.

A person earning $10,000 and having a spouse and two children would only pay about $40 of provincial tax in Alberta, assuming they smoked. A similarly situated person in British Columbia would pay about $270 and an Ontario resident would pay over $240. Chart G3 compares the net income after provincial taxes in each of the ten provinces of a representative person earning $30,000. Such a person having a spouse and two children would pay about $2,020 tax in Alberta, $2,890 in British Columbia and $3,370 in Ontario.

Alberta's low level of taxation and favourable tax mix are made possible by revenue from the sale of depleting natural resources. The most telling aspect of the budget's revenue picture is Alberta's heavy reliance on non-renewable resource revenue and the comparatively minor importance of taxes. Alberta's revenue structure differs markedly from that of other provinces. In 1983-84 non-renewable resource revenue in Alberta accounted for approximately 45% of consolidated revenue while provincial taxes accounted for about 20%. In contrast, and as depicted in Chart G4, revenue from taxation in other provinces accounts for about half of their gross general revenue. In most provinces, non-renewable resource revenue makes up less than 2% of gross revenue.

MAJOR PROVINCIAL TAXES LEVIED ON INDIVIDUALS AS A PERCENTAGE OF GROSS INCOME*

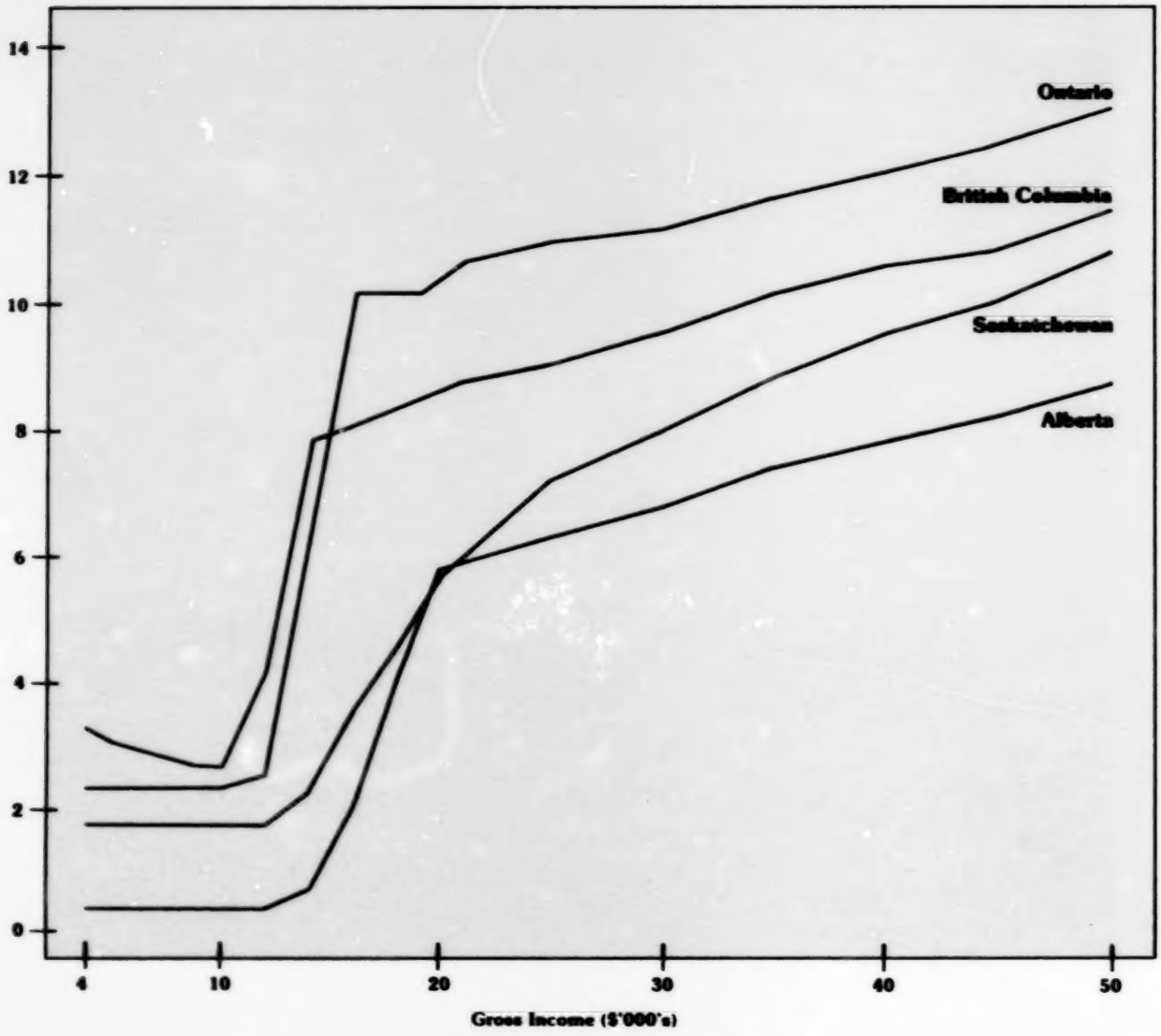
(per cent) **Chart G1**



* Provincial taxes include personal income tax and tobacco tax as well as sales tax, gasoline tax and health care premiums where applicable

MAJOR PROVINCIAL TAXES LEVIED ON A FOUR-MEMBER FAMILY AS A PERCENTAGE OF GROSS INCOME*

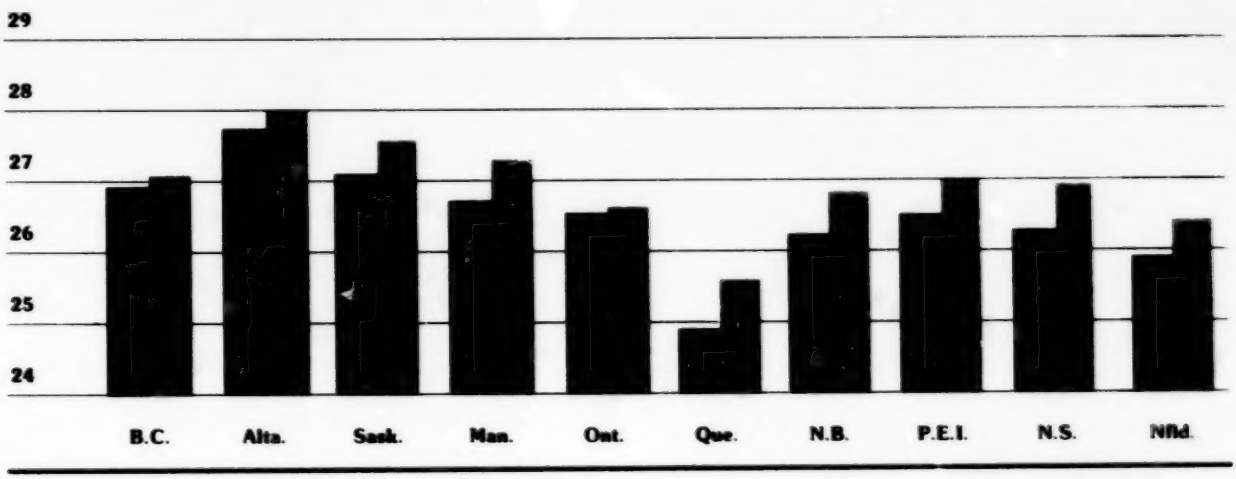
(per cent) **Chart G2**



* Assumes a single income earner with spouse and two dependants under sixteen years of age. Provincial taxes include personal income tax and tobacco tax as well as sales tax, gasoline tax and health care premiums where applicable.

INTERPROVINCIAL COMPARISON OF INCOME NET OF PROVINCIAL TAXES. GROSS INCOME LEVEL $30,000[a]
(thousands of dollars)

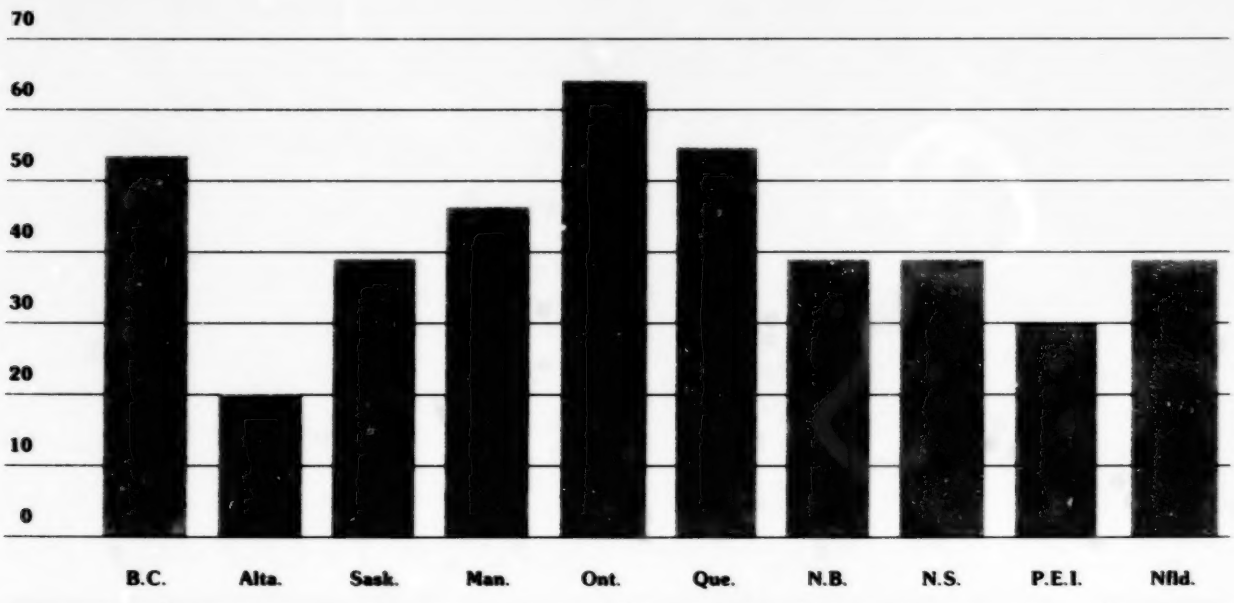
Chart G3



[a] Provincial taxes include personal income tax and tobacco tax as well as sales tax, gasoline tax and health care premiums where applicable. Assumes a family of four with single income earner with income of $30,000 from employment, a spouse and two dependants under sixteen years of age.

Individual
Family

PROVINCIAL TAX AS A PERCENTAGE OF GROSS GENERAL REVENUE, 1983-84 ESTIMATES
(per cent) **Chart G4**



The economic strength of the province is also an important factor in Alberta's beneficial tax structure. Alberta's share of virtually every tax base (for example, personal income in the case of personal income taxes and profits in the case of corporate income tax) exceeds the province's share of the national population. For example, in recent years, roughly 25% of annual corporate taxable income reported in Canada was earned in Alberta compared to a population share of 9.4%. As a result, the estimated revenue yield from each point of tax levied, as displayed in Table G2, is higher per capita than elsewhere. This means that collections are relatively high even though Alberta tax rates on individuals and corporations are low.

ESTIMATED REVENUE YIELD PER UNIT OF TAX

Table G2

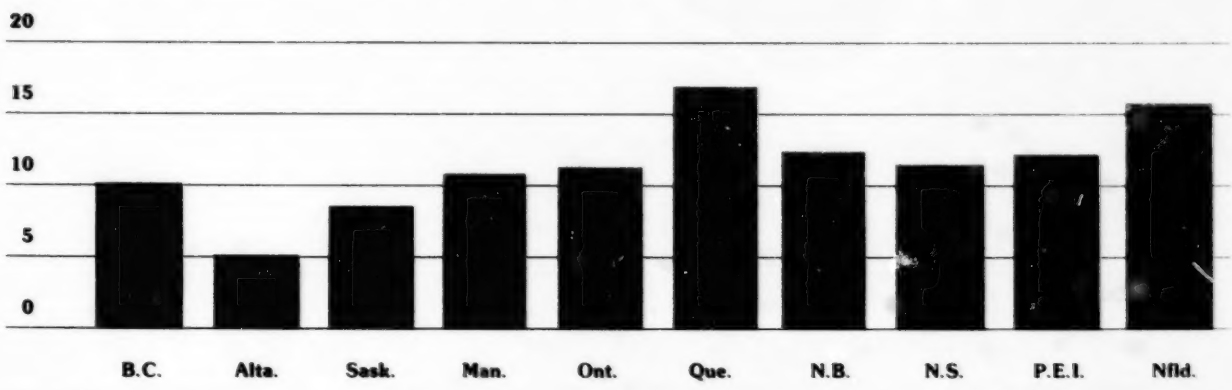
	Estimated 1983-84 Receipts At Alberta Tax Rates ($ millions)	Tax Unit	Additional Revenue Per Unit of Tax ($ millions)
Personal Income Tax	1,518	1%	45
Retail Sales Tax	0	1%	214
Motive Fuel Tax	6	1¢ litre	69
Tobacco Tax	101	0.1¢ cig.	3
Corporate Income Tax	590	1%	69

The Alberta government recognizes the paramount importance of the private sector in creating employment and income. The economy benefits because a relatively small share of the fruits of private sector activity is redirected to finance the goods and services provided by the provincial government. As shown in Chart G5, provincial taxes represent only about 5% of Alberta's gross provincial product. They represent approximately 10% and 8% in each of British Columbia and Saskatchewan respectively.

PROVINCIAL TAX AS A PERCENTAGE OF GROSS PROVINCIAL PRODUCT. 1983-84 ESTIMATES

(per cent)

Chart G5



Alberta's resource wealth is non-renewable. As revenue from the sale of the province's depleting resources declines, Alberta's considerable unused tax capacity will have to be tapped. If Ontario tax rates had been in place in Alberta in 1983-84, an additional $3 billion in Alberta tax revenue would have been raised – assuming no offsetting decline in economic activity. Table G3 shows the details of this calculation. Clearly, taxation even in the most robust economic circumstances cannot generate the revenue to make up for the current yield of the province's non-renewable resource revenue which was over $4 billion in 1983-84.

ADDITIONAL TAX YIELD AT ONTARIO TAX RATES **Table G3**

	Alberta Tax Rate	Estimated 1983-84 Receipts At Alberta Tax Rates ($ millions)	Ontario Tax Rate	Additional Receipts At Ontario Tax Rates, 1983-84 ($ millions)
Personal Income Tax	43.5%[a]	1,518	48.0%[b]	411
Retail Sales Tax	0%	0	7.0%	1,498
Motive Fuel Tax	0/0.7¢/0.7¢ per litre[c]	6	8¢/1.7¢/2.8¢ per litre[c]	482
Tobacco Tax	1.48¢ per cig.	101	2.59¢ per cig.	38
Health Care Premiums	$168/$336 per year[d]	180	$340/$680 per year[d]	245
Corporate Income Tax	5/11%[e]	590	0/15%[e]	172
Capital Tax	0%	0	0.3%	233
Total		2,395		3,079

[a] During the first three quarters of the 1983-84 fiscal year (prior to January 1, 1984), the personal income tax rate was 38.5%.
[b] Excluding surtax.
[c] Motor vehicles/aircraft/railway locomotive. Rates as of March 16, 1984.
[d] Single rate/family rate.
[e] Small business rate/general corporate tax rate.

1984

Budget Highlights

Alberta

HON. LOU HYNDMAN
PROVINCIAL TREASURER

Summary and Highlights

The highlights of the 1984 Alberta budget are:

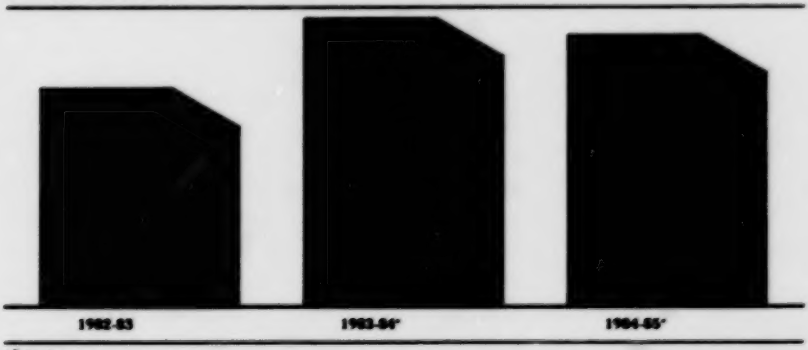
- A reduction in government expenditure from last year's level – the first in over 40 years.
- A reduction of over 1,100 permanent full-time public sector positions that have become unnecessary in government departments and Crown agencies.
- A further drop in the budgetary deficit to an estimated $258 million in 1984-85.
- No new taxes and no increases in existing tax rates.
- Continued use of Heritage Fund investment income to hold down taxes and reduce the deficit.
- A job-intensive $1.7 billion capital works budget which will create as much employment activity as the record capital budgets of the past two years. As well, capital projects of the Heritage Fund and Crown corporations will total over $1.2 billion.
- Special job creation and manpower training programs valued at over $78 million.
- Maintenance of quality "people programs" through continuation of one of the highest per capita health, education and social service grant levels in Canada.
- Major expansion of the home care program with funding rising by 55% to over $28 million.
- Additional funding to assist students in advanced education.
- A new venture capital program for small business.
- A start on two major, new active treatment hospitals, one in Edmonton and one in Calgary, with an estimated total cost for both of $280 million.

In conclusion, this budget represents a sound financial strategy for Alberta – a strategy of balance. It balances the need to maintain essential people services with the need to constrain operating expenditure. It balances the desire to encourage steady economic recovery and employment growth with the recognition that lasting jobs are created by the private sector. It meets these objectives while at the same time holding down taxes and reducing significantly the deficit and our borrowing requirements. The result is a budget in tune with the times and with the aspirations, needs and expectations of Albertans.

1984-85 Expenditure Plan

- Expenditure will drop by $169 million from the 1983-84 estimates. This marks the first decrease in more than 40 years.
- The operating budget will be frozen at $7.7 billion.
- The capital budget will be $1.7 billion, providing approximately the same amount of job activity as last year's capital budget.

BUDGETARY EXPENDITURE
(millions of dollars)

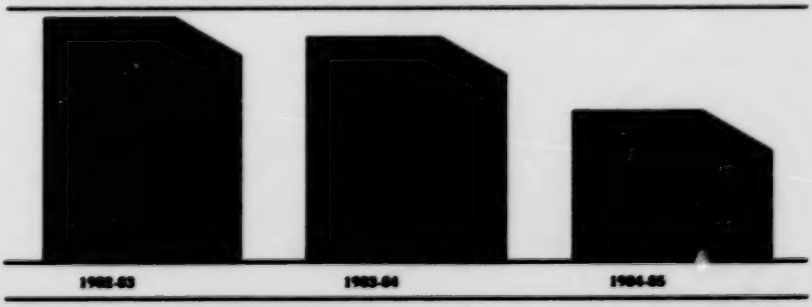


*Estimate

Leaner, More Efficient Government

- There will be a further reduction of 869 permanent full-time positions in government departments. In addition, approximately 240 permanent positions have been cut from Crown agencies.
- All departments and Crown agencies are being asked to reduce operating costs. The challenge is to manage better with less.
- Additional areas will be examined for privatization.

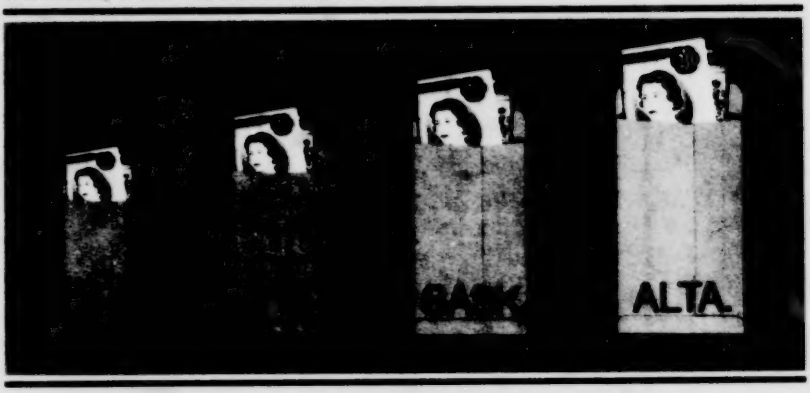
PERMANENT FULL-TIME PUBLIC SERVICE POSITIONS



Taxation

- There are no new taxes and no increases in existing tax rates in this budget.
- Albertans enjoy the most favourable overall tax environment in Canada. We continue to have the lowest personal income tax rate. We are one of only two provinces with no gasoline tax. And we are the only province with no sales tax.
- This means, for example, that an Alberta family of four with a $30,000 income pays approximately $1,350 less in taxes than a similar family in Ontario.

COMPARISON OF TAKE HOME PAY AFTER PROVINCIAL TAXES
(For a family of four with a gross income of $30,000)



MAJOR PROVINCIAL TAX RATES*

	Personal Income Tax					Health Care Premiums		Corporate Income Tax		
	Basic Rate	High Income Surtax	Retail Sales Tax	Gasoline Tax	Tobacco Tax	Individual	Family	Small Business Rate	General Rate	Capital Tax
	(%)	(%)	(%)	(%)	(¢/cig)	($)	($)	(%)	(%)	(%)
British Columbia	47.5	10.0	7	20	2.00	192	408	8	16	0.2
[illegible]	**43.5**	**—**	**—**	**—**	**1.48**	**168**	**336**	**5**	**11**	**—**
Saskatchewan	51.0	12.0	5	—	2.08	—	—	10	14	0.3
Manitoba	54.0	20.0	6	16	2.10	—	—	10	16	0.2
Ontario	50.4	—	7	20	2.59	340	680	0	14/15	0.3
Quebec	70-85	—	9	30	2.26	—	—	3	5.5/13	0.45
New Brunswick	58.0	—	10	20	2.96	—	—	9	14	—
Prince Edward Island	52.5	—	10	22	1.50	—	—	—	10	—
Nova Scotia	56.5	—	10	20	1.40	—	—	10	15	—
Newfoundland	60.0	—	12	22	4.78	—	—	12	16	—

* At March 16, 1984

Alberta Economic Resurgence Plan

- To protect Alberta from the full force of the global economic recession, the Alberta Economic Resurgence Plan was introduced in 1982. Through this unique plan, made possible by the Heritage Fund, family and business incomes were stabilized and employment was sustained.
- Over $2.2 billion in special assistance will have been provided under the Alberta Economic Resurgence Plan.

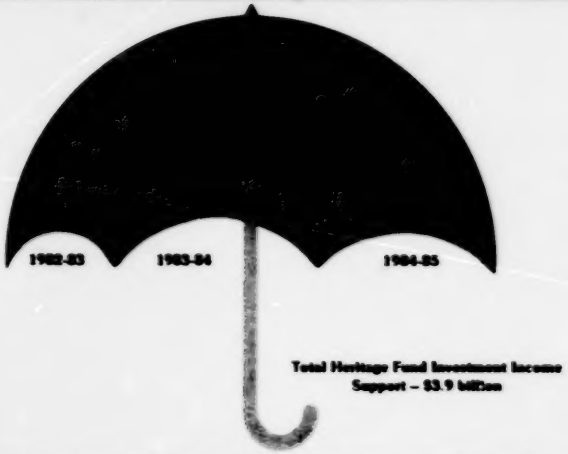
ALBERTA ECONOMIC RESURGENCE PLAN PROGRAMS, 1982-83 TO 1984-85 (millions of dollars)

Homeowners	
Heritage Fund Mortgage Interest Reduction Program	273.8
Small Businessmen and Farmers	
Heritage Fund Small Business and Farm Interest Shielding Program	85.8
Farm Fuel Distribution Allowance Enrichment	130.8
Primary Agricultural Producers' Natural Gas Price Protection Plan	5.8
Small Contractors	
Highway Winter Works and 1982 Fall Roadwork Extension Programs	45.6
Truckers	
Truck Licence Fee Reduction Program	33.5
Students	
Advanced Education Extra Enrolment Funding	30.1
Oil and Gas Industry	
Well Servicing and Development Grants	350.6
Royalty Tax Credit Enrichment	1,203.0
Extension of Natural Gas Royalty Holidays	45.0
	2,204.0

Heritage Fund Support for Social and Economic Programs

- When the "rainy days" brought on by the global economic downturn hit Alberta, the Heritage Fund "umbrella" was brought out and opened. By the end of 1984-85, $3.9 billion in investment income earned by the Heritage Fund will have been diverted to special support for Albertans. Without the Heritage Fund, it is clear that Albertans would face both tax increases and cuts in levels of services. The Heritage Fund is our financial bridge to the future.
- To reduce the need for borrowing, Heritage Fund investment income will continue to be used for budgetary purposes until the financial situation improves.
- The transfer to the Heritage Fund of non-renewable resource revenue will continue at the 15% level.

HERITAGE FUND INVESTMENT INCOME SUPPORT FOR SOCIAL AND ECONOMIC PROGRAMS, 1982-83 TO 1984-85



Financial Highlights

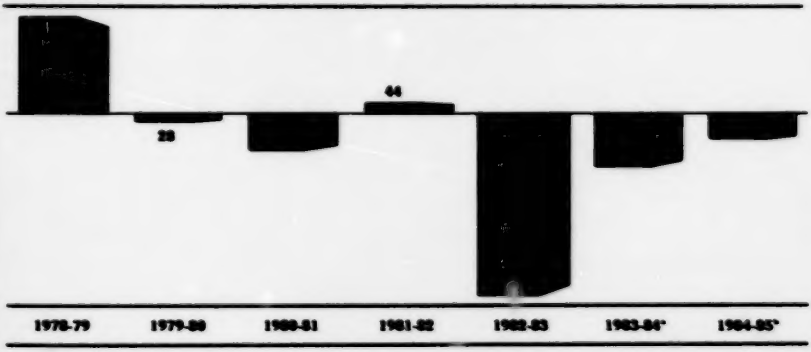
- Total 1984-85 revenue is projected at $9.4 billion, up 4.3% from the 1983-84 forecast. Heritage Fund investment income for budgetary use will amount to $1.5 billion or 16% of total budgetary revenue.
- Total budgetary expenditure is targeted for $9.6 billion, a drop of 1.7% from last year's comparable estimates.
- The 1984-85 budgetary deficit is estimated to be $258 million, less than half the 1983-84 deficit and one-eighth that of 1982-83.

SUMMARY BUDGETARY PLAN
(millions of dollars)

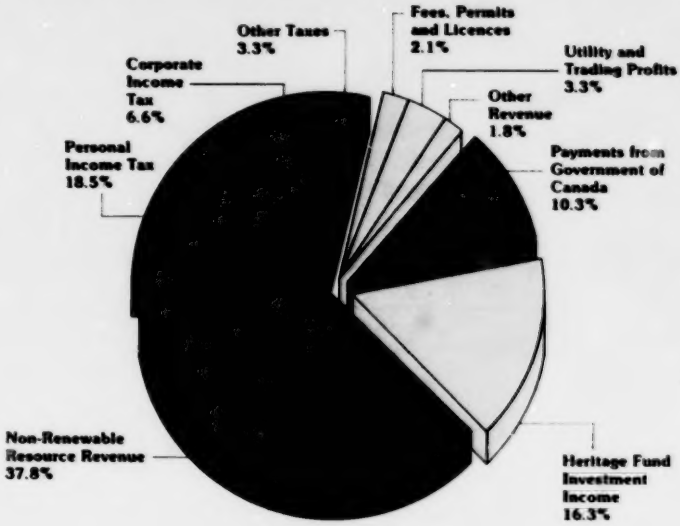
	1984-85 Estimate*	1983-84 Forecast	1983-84 Estimate*	1982-83 Actual
Budgetary Revenue				
General Revenue	7,856	7,492	7,340	6,220
Heritage Fund Investment Income	1,530	1,505	1,500	866
	9,386	8,997	8,840	7,086
Budgetary Expenditure				
Voted Appropriations				
Operating	7,705	7,692	7,703	6,997
Capital	1,707	1,773	1,891	2,041
Statutory Appropriations	232	98	219	96
	9,644	9,563	9,813	9,134
Budgetary Deficit	258	566	973	2,048

* Excludes expenditure proposals for the Legislative Assembly

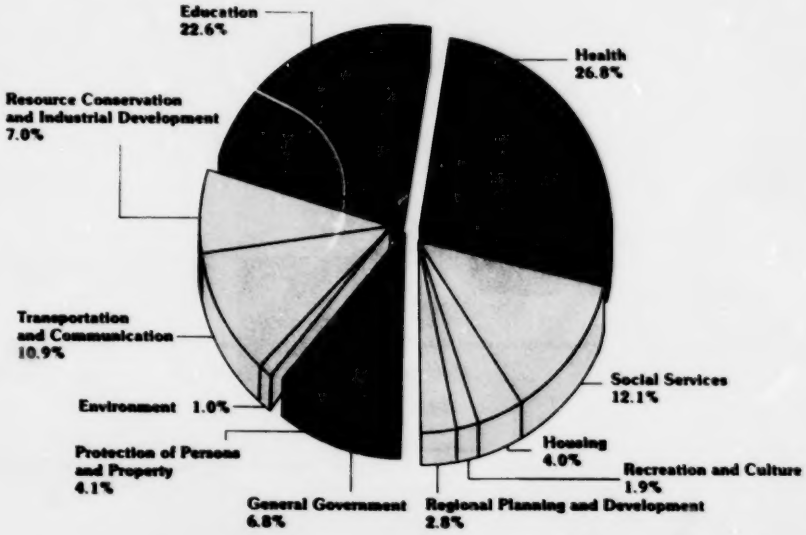
BUDGETARY SURPLUS AND DEFICIT
(millions of dollars)



PERCENTAGE DISTRIBUTION OF BUDGETARY REVENUE BY MAJOR SOURCE, 1984-85 ESTIMATE



PERCENTAGE DISTRIBUTION OF VOTED APPROPRIATIONS BY MAJOR FUNCTION, 1984-85 ESTIMATE



POOR

QUALITY

ORIGINAL